Floral Wholesaling in Southern California--An Economic Analysis

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PREFACE

Greenhouse and nursery products are an important source of income for farmers in many areas. The U. S. Department of Agriculture has estimated that in 1959 farmers' total cash receipts from these products were $660 million. The present study is part of a broad program of research aimed at improving marketing efficiency and expanding markets for farm products.

The floral industry in southern California is in a unique position among the many agricultural and manufacturing industries in the area because it is among the last of the agricultural production industries, with high yield per acre and per unit of labor, to remain in a highly urban environment.

This economic study of the southern California industry was undertaken because (1) little was known about this colorful industry that provides a highly productive nonfood, nonfiber use for land and employment for many people; (2) the industry's products, especially some cut flowers, seem to be losing favor among consumers in competition with other products for consumers' dollars; (3) changes are taking place within the industry, but more rapid changes are needed to make the industry more responsive to changes in population, incomes, and consumer tastes; and (4) individuals and associations in the industry need such a study to assist in making important forward-looking decisions. A better understanding of the wholesaling organizations, practices, and trends, as developed in this report, should aid this decision-making process.

This report was prepared by the University of California at Los Angeles under contract with the U. S. Department of Agriculture. Most of the data in the report are for 1956, but they are still applicable. The market organization and marketing practices for floral products in southern California have not changed materially. Since this is believed to be the most comprehensive study ever made of the marketing of floral products it was considered desirable to publish the findings in considerable detail.

ACKNOWLEDGMENTS

Dr. Harry Kohl, Associate Professor of Floriculture and Ornamental Horticulture, and Dr. Roy J. Smith, Professor of Agricultural Economics, University of California, Los Angeles, read early drafts and made pertinent suggestions for improving the analysis and presentation. Dr. D. B. DeLoach, Professor of Agricultural Economics and Agricultural Economist in the Experiment Station and Giannini Foundation, University of California, Los Angeles, assisted in planning and developing the study and contributed much to this report through his constructive comments and suggestions.

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An Economic Analysis

by

Edward L. Rada 1/

HIGHLIGHTS

1. The wholesale value of floral crops in southern California--chiefly cut flowers, greens, and small potted plants--amounted to $18 million in 1956 and was increasing at the rate of about 8 percent per year. Of this total, 88 percent was produced locally and 12 percent was imported; 68 percent was sold locally and 32 percent was sold out of the area. Sales out of the area were increasing more rapidly than local sales. About 75 percent of local sales to consumers were made through retail florists (mainly cut flowers); 20 percent through other retailers (mainly potted plants); and about 5 percent directly by growers.

2. It was estimated that 350 wholesalers of floral products were in business in southern California in 1956 and that 250 of these were cut-flower wholesalers. More than 200 were growers who sold their own commodities at wholesale, chiefly on the Los Angeles flower market. In dollar value, more than 50 percent of all floral commodities were sold on this central market. A small number of large wholesalers--mainly corporations and those offering more than limited commodity lines or limited wholesaling services--accounted for more than 75 percent of total sales in southern California.

3. Floral wholesaling in southern California was in transition. Several external forces were inducing changes in traditional methods of floral wholesaling: Growth and shifts in population and income distribution and use, competition of residential and industrial users with growers for land, and improved transportation and communication facilities. Internally, the main factors stimulating change were the increased technological efficiency and capacity within floral production firms, the shifting of production to areas more distant from the central market, the increased size of a declining number of retail florists, and fewer retail florists buying on the Los Angeles flower market.

4. Adjustments among wholesalers to the new conditions facing the industry were: (a) A decline in the number of cut-flower grower-wholesalers and in their share of total sales, (b) rapid growth in number and size of commodity specialists selling foliage plants and the larger, more durable cut flowers such as gladiolus, carnations, stock, and chrysanthemums, (c) a greater increase in the number of buying specialists than of selling specialists, and (d) an increase in standing and telephone orders, with fewer traditional over-the-counter sales.

1/ Dr. Rada is Associate Professor of Family and Consumer Economics, Department of Home Economics, University of California, Los Angeles.

5. The Los Angeles flower market was the principal market for wholesaling floral products in southern California, especially for cut flowers and greens. The Southern California Floral Association regulated the use of market facilities and the eligibility of buyers with the authority and cooperation of the American Floral Exchange and the Southern California Flower Growers, Inc. The market wholesalers have adapted their operations to the needs and wishes of retail florists whose purchases on the market were diminishing in relative importance. Both groups, and individual members of both groups, tended to favor the maintenance of the status quo.

6. Trading on the Los Angeles market was limited to certain hours on 3 days a week. This market regulation and others tended to benefit the smaller, limited-line grower-wholesalers, commission wholesalers, and retail florists who favored the person-to-person, over-the-counter transactions. Enforcement of the market regulations, however, helped to (a) create a dual market--an early-morning, top-quality market on which routemen and shippers made their purchases and standing orders were reserved for retail florists, and a late-morning market patronized chiefly by nearby retailers buying on inspection and seeking price bargains; (b) foster an imperfect, disorganized price-making market in which the more regular participants had an economic advantage; (c) perpetuate marketing practices that slowed down the flow of merchandise and encouraged excessive handling; (d) encourage the underutilization of labor, space, and other resources on the market; and (e) stimulate the entry and growth of wholesalers, chiefly cut-flower and potted-plant shippers off the Los Angeles market.

7. Wholesaling margins were estimated to be 25 percent of gross sales (ranging from 16 to 33 percent) as a weighted average for all wholesalers. The size of the margin was directly related to the type and number of wholesaling services performed. The profit margin for most wholesalers was rather low. Prices paid by retailers and consumers, however, were adequate to keep many marginal wholesalers, whose alternative opportunities were limited, in the floral business. The average sales volume per wholesaler in 1956 was $148,000, which was substantially below the average size of floral wholesaling firms in New York City and Chicago. The evolution of floral wholesaling in southern California is toward fewer, larger, full-line, full-service wholesalers.

INTRODUCTION

During 1956 and 1957 the Los Angeles metropolitan floral market was outranked in dollar sales only by New York City and Chicago. It is one of the fastest growing markets for floral products in the United States. The wholesale value of floral crops produced in southern California increased from $11 million in 1949 to approximately $18 million in 1956.

Purpose and Scope of Study

The general objective of the study was to describe and evaluate the marketing practices, services, and costs for wholesaling floral products in southern California.

In this study, southern California comprises the 10 southernmost counties of the State. They form a basic trading area centering on Los Angeles, and consequently have a highly integrated community of interest. Furthermore, the production and marketing of floral crops in this part of the State differ markedly from that of northern California and other important floral areas in the United States.

Emphasis was placed on wholesaling because it is the crossroads of the trade, where changes in buying, selling, and other practices may be readily observed. The majority of floral wholesalers were doing business on the downtown Los Angeles flower market. The wholesalers were better organized than retailers or growers.

Floricultural commodities included were cut flowers, greens and dried materials, and potted foliage and flowering plants for indoor use. These are finished products commonly sold by floral wholesalers.

An important group of horticultural specialties included with the above commodities in Census enumerations but excluded from this study were bedding plants. The farm value of bedding plants in southern California amounted to $2,751,319 in 1949, or about 25 percent of the total value of cut flowers, potted plants, greens, and bedding plants produced in that year (12). 2/ Also excluded were certain plant cuttings and propagating materials, flower seeds, and bulbs, because they are chiefly supply items which growers trade among themselves.

Procedures

Published information about the floral industry in southern California was available in the periodic Census of Agriculture reports of which the detailed Horticultural Specialties report of 1950 provided the benchmark material for this study. The 1948 and 1954 Census of Business reports also yielded some useful information on floral wholesaling and retailing for the Los Angeles metropolitan area. The quarterly reports of the California State Board of Equalization (the agency which administers and collects State consumption and

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2/ Underscored numbers in parentheses refer to items in the Literature Cited, p. 78.

use taxes) supplied valuable quarterly data on retail florists' sales by counties. Each of these secondary sources, however, failed to describe important aspects of the floral trade, especially those relating to wholesaling.

The material presented in this report, beginning with the section "The Los Angeles Flower Market," is based mainly on original information gathered directly from wholesalers. There were two stages to the study. Initially, schedules were mailed to 455 wholesalers requesting information about each firm's history, organization, products traded, and buying and selling practices. Of the 204 schedules that were returned, 134 were selected for analysis. On the basis of these returns it was estimated that there were about 350 floral wholesalers doing business in southern California in 1956. The data also formed a basis for classifying wholesalers in smaller, more uniform categories than those in the Bureau of the Census reports; and it provided the researchers with a list of cooperators for the next and more comprehensive phase of the study.

In the second phase, additional marketing data were obtained by personal interview from a selected group of wholesalers. Fifty-four floral wholesalers from nine wholesaling categories were chosen for the detailed interviews. An attempt was made to include adequate representation by commodities traded, location of the firm, size of firm (as measured by gross sales), age of firm, and wholesaling functions performed.

Data obtained in the first stage were weighted by number of paid employees, since gross sales were not requested. The statistics gathered in the second phase of the study were weighted by the 1956 gross sales of each firm.

Limitations of the Data

The 54 floral wholesalers selected for detailed interviews had slightly more than $8 million in sales in 1956. They represented approximately 15 percent of the number of floral wholesalers doing business in southern California in 1956 and an estimated 44 percent of total dollar sales at the wholesale level.

As was expected, a higher proportion of the larger firms and the better informed wholesalers replied to the initial classification schedule. This suggests an upward bias in the sample. The largest wholesalers were intentionally selected for interview in the second stage of the study because of their importance in establishing trade practices. The largest firm was part of the sample in most but not all of the wholesaling categories. Nevertheless, in terms of dollar sales the sample was more than adequate.

When the replies were studied in terms of commodities traded, functions performed, and location of the firms, it became apparent that the sample was not always proportionally representative. For example, the dollar sales of gladiolus, roses, and birds of paradise, as reported in the schedules, were a larger percentage of total dollar sales than chrysanthemums, asters, and daisies. The latter group of flowers were grown primarily by many small firms, who constituted only a small segment of the total sample. Also, the four greens-and-dried-materials wholesalers in the sample represented a larger percentage of the total number of such businesses, both in number and in volume of sales, than did the four cut-flower routemen of their business.

About two-thirds of the wholesale firms in the area had their wholesaling businesses located on the central Los Angeles flower market. These firms accounted for about 50 percent of the total floral wholesale volume in southern California. Of the 54 wholesalers selected for more detailed study, the 30 firms from the central market accounted for 56 percent of the dollar volume reported in the survey, while the 24 firms off the market accounted for the remaining 44 percent.

These deviations between the sample and the universe suggest that the samples for each of the separate strata had different degrees of reliability. In most cases, the data from the sample were considered adequate and representative for this analysis. Where there is substantial deviation from known or expected results, attention is called to the differences.

Definition of Terms

The meaning of some of the terms used in this report is somewhat different from that ordinarily found in marketing literature. An academic classification of wholesalers would indicate the completeness of the lines handled and functions performed. On that basis most of the southern California floral wholesalers would be termed limited-line, limited-function wholesalers. Most of them specialized in one of the four commodity groups included in this survey and only a few performed all of the eight functions generally associated with wholesaling (29). The terms limited-line, full-line, limited-function, and full-service are used in the report for descriptive rather than classification purposes. The classification terms employed are those in common usage by the trade.

Grower-wholesalers are those who grow nearly all of the products they sell and who sell their own products, at a location other than where grown, to others for resale. 3/

Commission wholesalers are those whose business is primarily handling floral products grown by others, and selling them locally on a commission basis to others for resale. Basically they represent growers and do not take title to the merchandise handled.

Merchant wholesalers are those whose principal business is buying floral products outright on their own account and selling them to others for resale. Included in this category are cash buyers, dealers (buyers on credit), and brokers, all of whom obtain merchandise directly from growers. Included also are merchant buyers who represent retailers and buy much of their merchandise from other wholesalers. Shippers and routemen are not included in this class, but in reality they are specialized merchant wholesalers; "jobbers" probably would be a more correct title for them.

Shippers are those whose principal business is the acquisition of floral merchandise from others outright or on commission and whose sales are primarily outside of southern California to others for resale.

3/ Grower-wholesalers, in essence, are wholesale growers--growers selling to wholesalers and retailers--but they are singled out in this study because most (some 200 or more in 1956) sold from stalls in the Los Angeles market and performed other regular wholesaling functions.

Routemen are those whose principal business is the acquisition of floral commodities outright or on commission and who sell them from a truck on a regular route, mainly in southern California, to others for resale.

CLASSIFICATION OF WHOLESALERS

The information used in this analysis was obtained from 134 mail replies from floral wholesalers and from detailed interviews with a selected sample of 54 of the responding wholesalers (table 1). The 134 respondents were classified as follows: 60 cut-flower grower-wholesalers; 27 potted-plant (foliage and flowering plants) grower-wholesalers; 18 cut-flower and greens-and-dried-materials commission and merchant wholesalers; 24 cut-flower shippers; and 5 potted-plant and cut-flower routemen. Ninety of the respondents were located on the market; the rest were located elsewhere.

Personal interviews with the 54 wholesalers selected from the 134 respondents permitted a more precise classification of wholesalers by commodity, function, and location (table 1). The multiplicity of commodities handled and activities performed made it difficult to establish classes that did not overlap.

Classification by Commodities Handled

Cut flowers were not handled solely by cut-flower wholesalers nor were all plants handled solely by the potted-plant wholesalers (table 2). The cut-flower merchant wholesalers and routemen, who serviced many retail florists' accounts, bought and sold all types of commodities. The relative importance of commodity sales by type of wholesaler is shown in table 3.

Classification by Functions Performed

Classifying wholesalers by functions performed is more difficult (table 4). Although there were only 5 who shipped but performed no other wholesaling function, 19 of the 54 wholesalers shipped some floral products out of the area. Fourteen of the 54 wholesalers operated routes and 34 grew all or part of what they sold. Merchant wholesalers operated in more spheres of activity than other wholesalers. 4/ There were enough important differences among the various groups, however, to warrant separating them into subgroups for analysis.

Classification by Location of Business

Of the estimated 350 floral wholesalers in southern California, about 225 had their places of business on the Los Angeles market and the remainder were located off the market. This survey obtained data from 30 wholesalers on the Los Angeles market and 24 off the market. However, most of those located off the market, especially the cut-flower routemen and shippers, bought or sold floral commodities on the Los Angeles market at some time during the year.

4/ The Census of Business reports simplify the classification problem by including all floral wholesalers under the classification "commission and merchant wholesalers." The Southern California Floral Association uses two methods for classifying its members--one system parallels the classes established in this report.

Table 1.--Classification of 54 floral wholesalers by type and location of business, southern California, 1956

Type of wholesaler	Wholesalers reporting 1/	Location	
		On Los Angeles market	Off Los Angeles market
	Number	Number	Number
Cut-flower grower-wholesalers	19	14	5
Cut-flower commission wholesalers	5	5	---
Cut-flower merchant wholesalers	6	5	1
Cut-flower shippers	5	---	5
Cut-flower routemen	4	---	4
Greens-and-dried-materials merchant wholesalers	4	3	1
Potted-plant grower-wholesalers	8	3	5
Potted-plant routemen	3	---	3
Total	54	30	24

1/ Two routemen whose schedules were not used in the first phase of the study were part of the sample in the second phase.

Table 2.--Classification of 54 floral wholesalers by type and by principal commodities handled, southern California, 1956

Type of wholesaler	Wholesalers reporting	Commodity groups				
		Cut flowers	Foliage plants	Flowering plants	Greens and dried materials	Total
	Number	Number	Number	Number	Number	Number
Cut-flower grower-wholesalers	19	19	---	2	---	21
Cut-flower commission wholesalers	5	5	---	---	---	5
Cut-flower merchant wholesalers	6	6	1	1	1	9
Cut-flower shippers	5	5	---	---	---	5
Cut-flower routemen	4	4	2	3	4	13
Greens-and-dried-materials merchant wholesalers	4	2	---	---	4	6
Potted-plant grower-wholesalers	8	---	5	5	---	10
Potted-plant routemen	3	---	3	3	---	6
Total	54	41	11	14	9	75

Table 3.--Percentage distribution of commodities handled, 54 floral wholesalers, by type of wholesaler, southern California, 1956

Type of wholesaler	Wholesalers reporting	Commodity: Cut flowers	Commodity: Foliage plants	Commodity: Flowering plants	Commodity: Greens and dried materials	Total
	Number	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers	19	89	---	11	---	100
Cut-flower commission wholesalers	5	100	---	---	---	100
Cut-flower merchant wholesalers	6	99	1/	1/	1/	100
Cut-flower shippers	5	100	---	---	---	100
Cut-flower routemen	4	94	1	2	3	100
Greens-and-dried-materials merchant wholesalers	4	13	---	---	87	100
Potted-plant grower-wholesalers	8	---	73	27	---	100
Potted-plant routemen	3	---	87	13	---	100
Total or average	54	67	17	7	9	100

1/ Less than 0.5 percent.

Table 4.--Wholesalers performing specified functions in addition to their principal functions, 54 floral wholesalers by type, southern California, 1956

Type of wholesaler	Wholesalers reporting	Grower-wholesalers	Commission wholesalers	Merchant wholesalers	Shippers	Routemen
	Number	Number	Number	Number	Number	Number
Cut-flower grower-wholesalers	19	19	---	4	6	1
Potted-plant grower-wholesalers	8	8	---	---	3	3
Commission wholesalers	5	1	5	2	---	---
Merchant wholesalers	10	3	6	10	5	3
Shippers	5	1	---	4	5	---
Routemen	7	2	---	2	---	7
Total	54	34	11	22	19	14

CHANGING CONDITIONS IN THE SOUTHERN CALIFORNIA FLORAL INDUSTRY

Only a small segment of southern California has physical conditions which favor the production of a large variety of floral crops. Most of the area is either mountainous or part of a vast desert. The intensive agriculture of the region, including its floral production, is concentrated along the coast and in the coastal valleys where about 90 percent of the area's population is located (fig. 1). Oceanic influences temper the climate, permitting the outdoor growth of many floral crops. Abundant sunshine, long days, and infrequent frosts also favor floral production. Localized water shortages and smog (air contamination) are the two major environmental factors which restrict the growing of more and better flowers and plants.

Population and Industrialization

Southern California is undergoing a rapid growth in population and industrial activity. In July 1956, it had an estimated population of 8.1 million, about 60 percent of the total for the State. The 5-year increase for the area from 1950 to 1956 was 36 percent, an average gain of about 1,000 people a day. Los Angeles County alone has a population of more than 5 million, about 70 percent of the total population of the area.

Industrial employment in southern California is increasing more rapidly than total employment, while employment opportunities in agriculture are diminishing. Within a 30-mile radius of the Los Angeles city center, land formerly occupied by many large farms and ranches is rapidly being diverted to housing tracts, school grounds, shopping centers, and industrial sites--all requiring large tracts of land (23).

Income

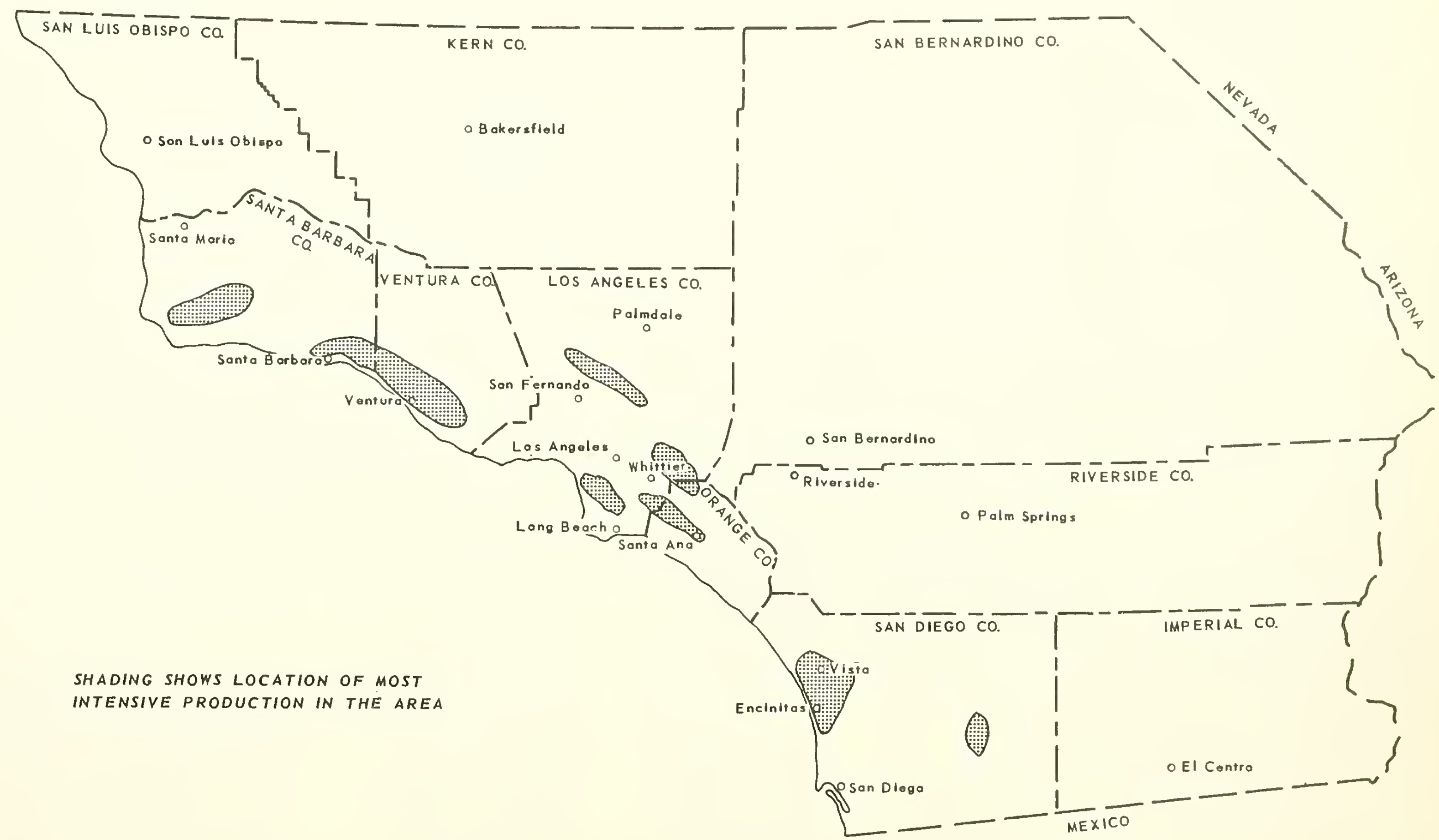
The rapid growth of population and industrial employment in the area has been accompanied by rising per capita income. In 1956, the average per capita income in California was $2,419 compared to $1,850 in 1950. California's per capita income is fourth largest among the States and substantially above the national average of $1,940 (16). This rise in per capita income, accompanied by a sizable increase in population, means a substantially expanded local market for floral products.

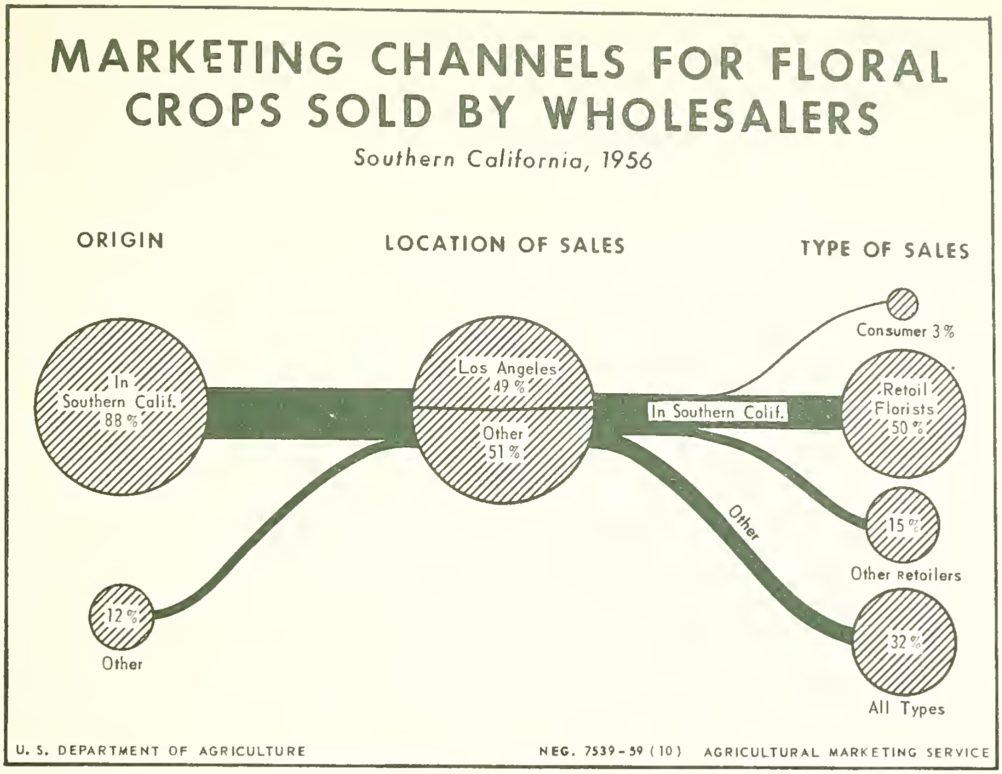
Sales

The total farm value of floral commodities (including greens and dried materials) sold in southern California, exclusive of bedding plants, was estimated to be $14,750,000 in 1956. About 88 percent was produced in the area and 12 percent was imported. Slightly more than half of the floral commodities moved through the Los Angeles flower market for further distribution and the remainder was sold directly or through wholesale firms not located on the Los Angeles flower market (fig. 2). About two-thirds of total sales were to southern California dealers and consumers and the remainder was to dealers out of the area. When viewed over a longer period of time, the floral industry is changing more rapidly than these data might indicate.

FLORAL PRODUCTION AREA

Southern California, 1956





THE CHANGING SUPPLY SITUATION

The impact of urbanization, rising costs, and rising incomes has altered consumer preferences, horticultural research, and cultural practices. It is reflected in the changing composition of production and in imports of floral products.

Production

The farm value of cut flowers and potted plants produced in southern California was $8.3 million in 1949, $11.6 million in 1954, and an estimated $12.9 million in 1956--about a 55 percent increase between 1949 and 1956, or an average increase of 8 percent per year. This increase in value is due largely to an increase in physical volume and a change in the type of crops produced rather than to higher prices at the farm level. Local flower growers seemed to agree that, in general, flower prices at the farm level had not increased since World War II; many had decreased.

In addition to changes in volume of production, related changes have occurred in location of production, size of firm, methods of production, types of commodities produced, and seasonality of production.

Location of production.--Floral production is not as concentrated as implied in figure 1. Only in the San Fernando and Whittier production areas do several floral farms adjoin each other. Elsewhere, small farms producing floral crops are located among homes, factories, and other types of farms.

Los Angeles County accounted for slightly more than 80 percent of the production in 1949 but for only 63 percent in 1954 (table 5). The largest relative increases occurred in areas 50 to 100 miles from the Los Angeles flower market, where open-field production is more typical than greenhouse production (7). Table 1 shows that the value of floral production in southern California has increased more rapidly than the increase in population.

Size of firm.--The Bureau of the Census reported a decline in the number of producers of floral crops in southern California from 1,005 in 1949 to 802 in 1954--a decrease of about 20 percent. In view of the 39 percent increase in the total value of production, the remaining producers nearly doubled in average size in this same period. The trend toward larger producers located farther from the central market is having a decided impact on marketing methods, practices, and institutions.

Methods of production.--The 1949 Horticultural Specialties Census reported that, by value of sales, finished potted plants and cut flowers were produced in southern California under the following cultural conditions: 9 percent under cloth; 46 percent under glass; 45 percent in the open or under lath. (The 1954 Census of Agriculture did not provide comparable data.)

There are reasons to believe, however, that production under glass has diminished in relation to the total since 1949. Some are: (1) Retailer and consumer preferences seem to be shifting to the larger and more lasting flowers, such as carnations and chrysanthemums, which are frequently grown without greenhouse protection; (2) southern California has an economic advantage in the production of these and other open-field crops because of its climate;

Table 5.--Population growth and increase in sales of floral producers, by county, southern California, 1950-55

County	Population growth 1/	Increase in dollar sales of floral producers 2/
	Percent	Percent
Los Angeles	27	23
Orange	69	36
Riverside	35	197
San Bernardino	39	462
San Diego	41	78
Santa Barbara	11	140
Ventura	31	243
San Luis Obispo, Kern, and Imperial	12	238
Average	27	39

1/ April 1, 1950, to July 1, 1955 (26).
2/ 1949 to 1954 (28, 29).

(3) open-field production, requiring less fixed investment, is more mobile than greenhouse production, and therefore responds more quickly to higher costs of production near urban centers; (4) when open-field producers move, they generally establish larger production units; and (5) new types of construction and new materials--expendable plastic sheets--are replacing the more durable and expensive glass houses for the production of some floral crops.

Contrary to what has been happening in cut flowers, greenhouse production of potted foliage plants has increased substantially since 1949, especially in Los Angeles County. Much new greenhouse space has been built and a number of old greenhouses have been converted to growing green plants in order to meet an increasing demand.

Types of commodities produced.--The 1949 Special Census of Horticultural Specialties indicated that cut flowers accounted for about two-thirds of the total value of production in southern California and potted plants, including plant materials for growing on, accounted for the remainder. In 1956 cut flowers accounted for 58 percent and potted plants and plant materials for 42 percent.

Increases in production for selected groups of commodities in 1956 over 1950 are estimated as:

	Percent increase
Potted foliage plants	134
Gladiolus, stock	71
Potted flowering plants	66
Carnations, chrysanthemums, asters, daisies	62
Roses, orchids, birds of paradise	44
All groups	55

Undoubtedly there are some commodities not included in this survey, sweetpeas perhaps, where production has been decreasing.

The leading cut flowers produced in southern California in 1956, ranked approximately in descending order of economic importance, were: Gladiolus, stock, carnations, orchids, roses, pompons, daisies, birds of paradise, and standard chrysanthemums. More than 80 different kinds of flowers and 50 ferns and plants were marketed on the Los Angeles flower market in 1957 (27).

More precise information on the production of individual commodities must await the next special census. Crop reporting surveys for the cut-flower industry will provide more frequent production and sales data for certain cut flowers than census data will (30).

Seasonality of production.--Some floral commodities are produced only in season, others are produced year-round. Demand, too, fluctuates sharply from season to season. One of the major economic problems of producers of floral commodities is to match seasonal production with seasonal demand, especially with peak demand when prices are more favorable.

Commercial growers employ various means to increase total seasonal production by altering the normal production periods of their crops. They may move to new production areas, use shading or lights to slow down or speed up flowering, sterilize and fertilize the soil, or alter temperatures and humidity by heating and cooling. 5/ Diseases and adverse weather, however, often upset well-planned production schedules.

The seasonal variations in the quantity and quality of local supplies available enable growers from other areas to profitably ship certain floral products into the Los Angeles market. Some floral products cannot be grown advantageously in southern California and are imported throughout most of the year.

Imports

Imports of floral products into southern California, amounting to nearly $2 million in 1956, accounted for about 12 percent of the total wholesale floral trade in the area. The leading floral items imported throughout the year were forest greens purchased from northern California, Oregon, and Washington. Roses, ferns, asters, orchids, pompon and standard chrysanthemums, and carnations were shipped in from the San Francisco Bay area. Gladiolus were imported in the spring from Florida and Mexico, as were Australian orchids. Foliage plant material came directly from plant growers in Florida, Hawaii, and Puerto Rico. Hawaii is a regular market supplier of orchids and exotic flowers and foliage. Flowering potted plants arrived from several different production areas, especially for the Easter-Mother's Day season.

Generally, it appears that in spite of obstacles to the production of floral crops in urban surroundings in the area, the supply of floral crops can be readily adjusted to meet market demand. Many growers have offset higher production costs by increasing their output for each unit of labor and capital employed.

THE CHANGING DEMAND SITUATION

Southern California wholesalers sell in the principal markets both inside and outside the southern California area. Figure 2 indicates that in 1956 the local area absorbed 68 percent of total supplies, while 32 percent was sold out of the area. Sales of floral products to local consumers were made through two specialized channels: Retail florists (50 percent), and "other retailers" such as nurseries, drugstores, food supermarkets, and variety stores (15 percent). Only about 3 percent of the total production was sold directly to consumers by grower-retailers. Retailing is more distinctly separated from floral crop production in California than in any other State. In 1949, the average of growers' sales at retail was 16 percent of the wholesale value of their crops (13).

5/ One grower-wholesaler reported doubling his production in the same space in 5 years by using mechanical devices to control temperatures and other improved production techniques.

Retail Sales in Southern California

Floral wholesaling institutions and practices in southern California have evolved primarily to serve the needs of local retail florists. By examining retail florists' sales one can visualize better the nature of consumer demand and the problems faced by wholesalers and producers in satisfying both retailer and consumer demands (fig. 3).

Trends in retail florists' sales.--Major trends in the retail florists' business in southern California which have a bearing on wholesaling are increased sales from year to year, regular seasonal variations in sales, and fewer but larger stores.

Sales of retail florists in southern California rose from $14.3 million in 1950 to $22.1 million in 1956--an increase of 54 percent (fig. 4). This gain approximated the rise in the farm value of production in the same period. There is reason to believe, however, that retail prices have risen considerably more than farm prices. Fossum, for example, shows that the average value of Florists' Telegraph Delivery orders since 1940 has paralleled the rise in the consumer price index. No such general price rise is evident for flower growers (14). Second, sales in Los Angeles County in 1956 accounted for about 75 percent of total sales of retail florists in southern California. However, the sales of retail florists are increasing more rapidly in the neighboring counties than in Los Angeles County. As the population increases and spreads over wider geographic areas, new retail florists go into business. Wholesaling problems change as distances increase between retailers and wholesalers.

Sales are typically highest during the second quarter of the year and are lowest for the third quarter. This regular seasonal shift in demand adds to the cost of doing business at all trade levels since retailers, wholesalers, and growers must expand their operations in one quarter and reduce them the next.

The decline in the number of retail florists and the increase in sales for the remaining stores is of much interest to wholesalers. Fewer and larger retail florists mean greater bargaining power for each florist. In some cases, the increase in buying power of retailers has been transferred to routemen and merchant buyers.

Population, income, and retail florists' sales.--Sales by retail florists in the seven southern California counties having the largest sales have pareleled the increases in personal income and population since 1950 (fig. 5). However, one would expect a stronger, more positive relationship between income, population, and floral sales. Should not an increase in either population or personal income increase total floral sales? When both are rising, should not total florists' sales rise faster than either population or income? Such a gain in sales did not occur between 1950 and 1956 in spite of unprecedented prosperity in southern California and a steady increase in the general price level.

Per capita sales by retail florists increased in southern California from $2.51 in 1950 to $2.80 in 1956--an increase of 11 percent. During this same period there was a 31 percent increase in per capita income (fig. 6). This is

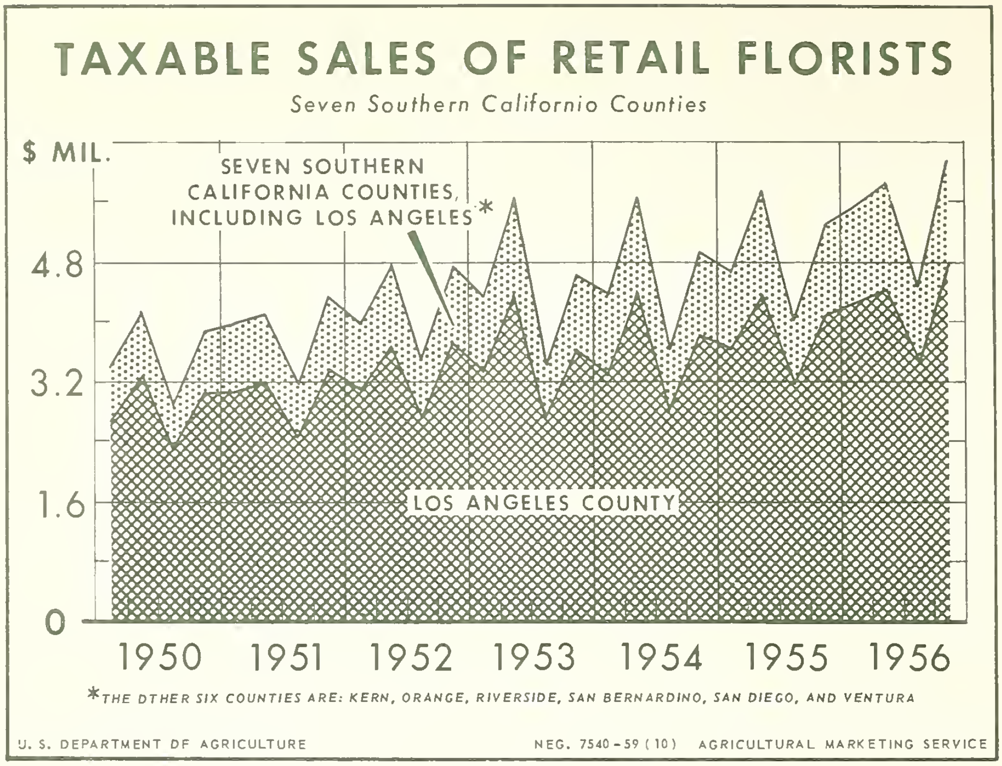


Figure 3

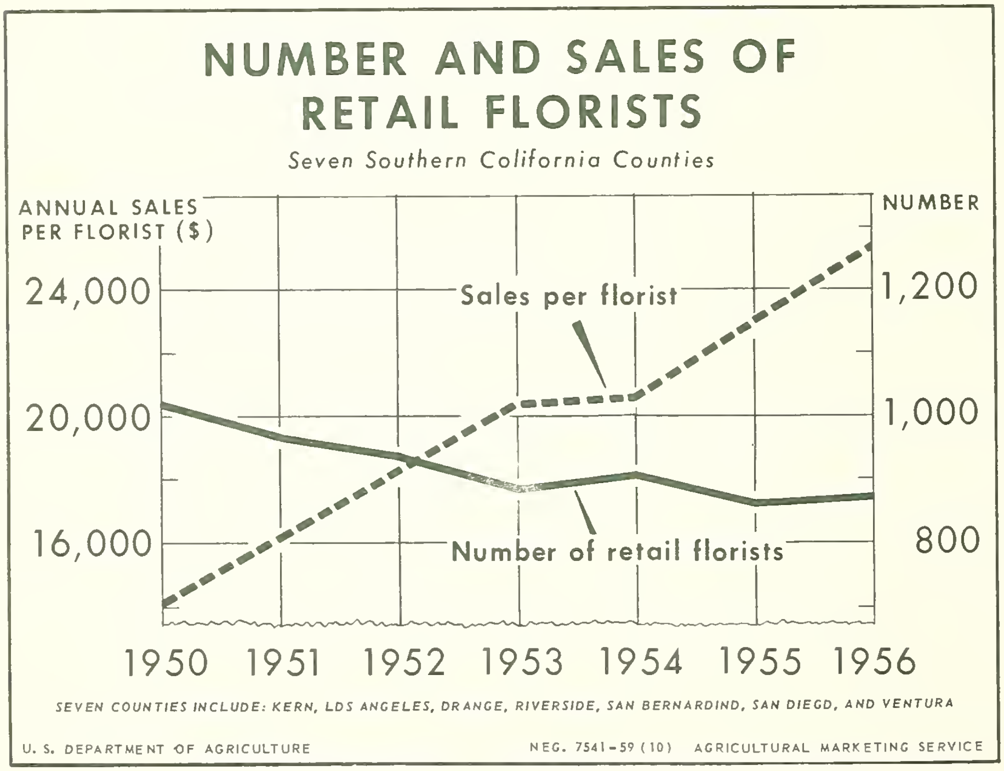


Figure 4

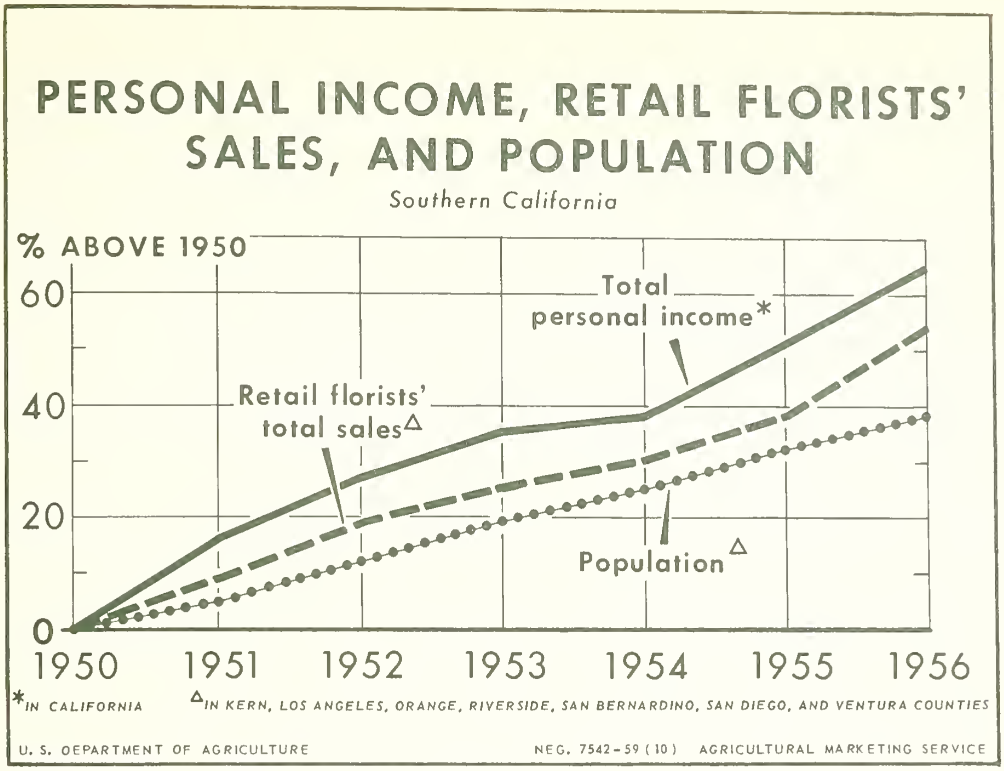


Figure 5

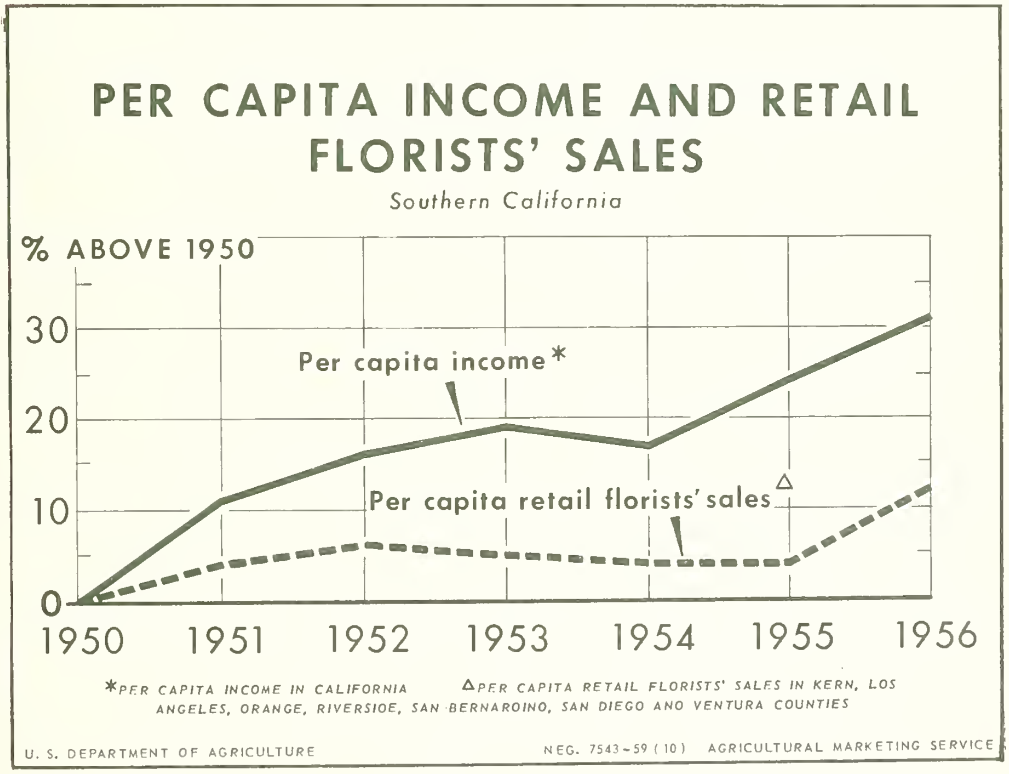


Figure 6

a low income-consumption response for a commodity that is as universally accepted as flowers. The response was much stronger, but still low, between 1955 and 1956. A 9 percent rise in income was accompanied by a 7 percent rise in retail florists' per capita sales. Per capita expenditure on flowers in southern California has actually declined since 1950. Southern California consumers are spending smaller amounts with retail florists out of each additional income dollar. The floral industry in southern California and in the United States is not keeping pace with the growth in the economy.

The low per capita consumption of flowers and the low response of retail florists' sales to rising incomes are of considerable concern to economists interested in this industry, particularly since supplies could be increased readily if retail sales were expanded. Sales through other retail outlets are partly but not wholly offsetting sales through retail florists.

Sales through retail outlets other than florists.--Floral sales through such retail outlets as food supermarkets and produce stores are on the increase in southern California, mostly because of the strong consumer demand for potted foliage plants. These retail outlets are handling cut flowers, but mostly on an experimental basis. The potential of these outlets has yet to be fully explored.

Out-of-Area Sales

In the meantime, important changes in the export trade, primarily out-of-State shipping, are having repercussions in the southern California floral industry and especially in the Los Angeles flower market. About one-third of the $14,750,000 value of flowers and potted plants traded in 1956 was sold out of southern California. Some of the sales were accounted for by trucker-routemen selling cut flowers and plants in Arizona, southern Nevada, and central California. Most of the sales, however, were out-of-State shipments of which about 75 percent went to other wholesalers and 25 percent directly to retailers.

From a survey conducted by the University of California in 1956 for the Marketing Act Committee of the California State Florists' Association, it was estimated that some $6 million in out-of-State sales were made from southern California in 1955. This represented about $4.2 million at the farm level. The estimate was based on data submitted by 24 floral shippers (table 6).

Total out-of-State sales from southern California increased by about 75 percent between 1950 and 1955. This was greater than the increase that occurred in total production or in local retail florists' sales. It reflects southern California's growing advantage in the interstate flower market.

Sales of shippers operating off the Los Angeles market rose from about 13 percent of the total out-of-State sales in 1950 to nearly 30 percent in 1955. Furthermore, while out-of-State sales for some firms were increasing they were decreasing for other firms. All of the firms showing a decrease in sales were located on the Los Angeles flower market. This decline, however, was more than offset by substantial increases in the sales of other shipping firms on the Los Angeles market.

Table 6.--Gross sales to buyers outside of southern California, 24 floral shippers on and off the Los Angeles flower market, 1950-55 1/

Year	Floral shippers			Shippers' gross sales					
	Total 2/	On Los Angeles market	Off Los Angeles market	Total	Shippers on Los Angeles market		Shippers off Los Angeles market		Increase over 1950
	Number	Number	Number	Dollars	Dollars	Percent	Dollars	Percent	Percent
1950	15	9	6	2,613,465	2,280,385	87	333,080	13	---
1951	17	10	7	2,945,798	2,456,691	83	490,436	17	13
1952	19	12	7	3,495,976	2,776,058	79	719,918	21	33
1953	24	14	10	4,189,213	3,189,748	76	999,465	24	60
1954	24	14	10	4,162,118	3,087,331	74	1,074,781	26	55
1955	24	14	10	4,584,977	3,268,412	71	1,316,565	29	75

1/ These data were gathered by the Agricultural Economics Department at the University of California at Los Angeles for the Marketing Act Committee of the California State Florists' Association, 1956.

2/ Only 15 of the 24 were in business throughout 1950-55. The sales volume of the few firms that dropped out of the business before 1956 is not included. It is assumed that most of their business was absorbed by other firms.

These somewhat contrary trends raise two questions: (1) Why are the sales of shippers increasing more rapidly from the outlying areas than from the Los Angeles market, and (2) why are out-of-State sales of some wholesaling firms increasing while those of neighboring firms are declining? These questions touch on two of the major problems in the industry--institutional controls and management practices--which receive attention throughout much of the remainder of the report.

GOVERNMENT REGULATIONS AFFECTING WHOLESALING

A large number of regulations--those of the city, county, and State, and those of other States, the Federal Government, and foreign countries--affected floral wholesaling. Some of the regulations applied more directly to floral wholesaling than others.

City Regulations

Two types of city licenses were required of floral wholesalers in Los Angeles: (1) The business license for those having a fixed place of business in the city; and (2) the vehicle or wheel license for transient vendors (such as routemen) who sold in the city.

Most of the nearby cities had a fixed annual business license fee. In others, including Los Angeles, business license fees were of two types. Grower-wholesalers selling from a stall paid a fixed $20 stall fee. Commission and merchant wholesalers, on the other hand, paid a percentage of gross sales and commission wholesalers paid only on commissions earned. The city of San Diego imposed a percentage of gross sales as a fee for all resident wholesalers.

The vehicle or wheel license applied mainly to cut-flower and potted-plant routemen. Nearly every city had such a fee, which ranged from $10 to $100 annually per firm, plus a certain fee for each truck. Some routemen reported paying more than $500 a year in such fees. In some cases, to avoid paying the fee, routemen transferred the merchandise to the buyer outside the city limits, or had a licensed carrier deliver it.

County Regulations

Counties in southern California did not impose business license fees, but did employ their power of taxation. For example, wholesalers on the Los Angeles market, most of whom owned no real property there, paid a personal property tax for all merchandise, cash registers, and refrigerators on hand at the time the assessor made his call.

County officials often were empowered to enforce the plant inspection laws of both State and county. Two counties, Tulare and Ventura, had more strict plant laws than those of the State of California. All plant materials entering these two counties had to be inspected before they could be resold. Routemen cooperating in this study considered these county regulations a nuisance but not a major obstacle to sales.

State Regulations

The State regulations affecting floral wholesaling in 1956 varied in their scope and coverage. A retail sales and use tax affected all floral wholesalers, except shippers who sold all of their merchandise out-of-State.

The Nursery Act, the Produce Dealers Act, and the Itinerant Merchant's Act specifically regulated the activities of wholesalers in the interest of buyers and sellers of floral and other agricultural products.

Nursery Act.--Under the provisions of the Nursery Act each plant nursery was inspected by a State inspector at least once a year and rated according to its cleanliness and freedom from plant disease. The nurseries given the top rating were allowed to ship plants anywhere in the State without inspection at shipping point or at destination except in Tulare and Ventura counties. Nurseries given a lower rating could ship between counties with inspection required at destination. Or they could ship within a county with inspection required before resale. The nurseries with top ratings had a distinct marketing advantage over the other nurseries.

Produce Dealers Act.--This act applied to cut flowers and bulbs, as well as to most farm products grown for sale, and was designed to protect the interests of growers who sold to or through wholesaling intermediaries. Licenses were required of commission merchants, dealers, brokers, cash buyers, and agents. In addition, commission merchants and dealers were required to post a surety bond.

The annual license fee for a commission merchant, dealer, broker, or cash buyer was $40 a year in 1956. A person might hold more than one license without paying an extra fee. Most of the wholesalers in the Los Angeles market operated with a commission merchant's and dealer's license. The latter entitled them to be cash buyers, too. The agent's license was $2.50 per year. Retail florists buying from growers were not required to obtain either a dealer's or cash buyer's license. However, employees of a floral wholesaler who picked up an order from a grower were required to be licensed as agents. The grower could deliver the same merchandise to the wholesaler, and his employees--as long as they did not receive the goods--would not have to be licensed as agents.

The commission merchant in 1957 was required to carry a surety bond of $5,000 for the protection of growers; the dealer a surety bond of $2,000. Because of the statute of limitations, a grower dealing with a commission house might receive up to $20,000 worth of protection and, if selling to a dealer, as much as $8,000 worth of protection (8).

Itinerant Merchant's Act.--This act applied only to merchants or dealers without a fixed or established place of business who moved farm products from one county to another. Cut-flower routemen were asked to comply with this act, which specified triplicate bills of sale from each seller. Most routemen met the terms of the act by establishing a fixed place of business, usually a place where they stored unsold merchandise.

Out-of-State Regulations

No attempt was made in this study to identify all of the regulations that affected out-of-State shipments of California floral products in 1956. California had a reciprocal agreement with most States on the acceptance of floral and nursery products. California shippers of flowers and plants were required to place a certificate of inspection on each box of floral merchandise shipped to other States. This certificate, granted by the County Agricultural Commissioner's office, stated that the premises from which the products originated had been inspected within the past year. Texas and Oklahoma were reported to have returned some shipments when the certificate was not on the box and Colorado and Nevada were reported to have often required an inspection in addition to the California inspection certificate.

Potted-plant shippers and routemen reported inspection problems in moving potted plants into Arizona. They reported that their trucks were sealed at the border and the contents inspected by the State Entomologist in Phoenix before distribution was permitted.

Some plant shippers reported that they were required to belong to the nursery association in the receiving State in order to have their commodities accepted. The nursery association function was to protect receivers against fraud and misrepresentation by shippers.

Incoming shipments of plant materials from Puerto Rico, Hawaii, and foreign countries had to be inspected and possibly fumigated in California before they could be used or resold. Gladiolus shipped from Mexico also occasionally received the same treatment. Shipments to some countries required numerous forms and export declarations. Shipments to other parts of the world were restricted by inadequate care and handling in transit and the scarcity of dollars.

THE LOS ANGELES FLOWER MARKET

The Los Angeles flower market is a centralized and well-organized wholesale floral market. Some 225 wholesalers did about $10,000,000 worth of business there in 1956--slightly more than half of the total volume of floral wholesaling in southern California. 6/ The total sales of the 30 market wholesalers in this study were divided as follows: About 29 percent were sales by grower-wholesalers of their own commodities; another 29 percent were consignment sales by commission wholesalers selling for other growers; and the remaining 42 percent were sales by merchant wholesalers of merchandise which they had purchased outright from others (exporters, other wholesalers, distant growers).

6/ The Los Angeles market was the only organized floral wholesale market in southern California in 1956. A small growers' market was in operation in San Diego until recently. In 1956, three commission and merchant wholesalers handled most of San Diego's floral wholesaling business, except for potted plants.

The influence of the Los Angeles market extended far beyond the physical or dollar volume of trade. The market influenced floral production and marketing practices, policies, and prices, especially those of the cut-flower industry, throughout southern California. Decisions of buyers and sellers in many distant production and consumption centers were influenced by happenings in the Los Angeles market. Its composition and operation were unique among agricultural wholesale markets.

This chapter describes and evaluates certain relevant institutional features of the market: Its physical features, how it was organized, and the regulations affecting buyer-seller relationships.

Purposes

The Los Angeles flower market, where many buyers and sellers meet in person, served three major purposes: (1) It facilitated the orderly flow and transfer of merchandise from growers to retailers; (2) it helped to establish market prices that reflected changing supply and demand conditions; and (3) it provided other market information that helped sellers and buyers make management decisions.

How well did the market serve these purposes? In order to make this evaluation we should know something about the market; who owned and controlled the market facilities; who the sellers and buyers were; and the functions and services of the Southern California Floral Association.

Location

The Los Angeles flower market was located about seven blocks south and east of the financial center of Los Angeles. Specifically, it was bounded by East Seventh Street on the north, East Eighth Street on the south, Maple Avenue on the west, and San Julian Street on the east (fig. 7). (One or two wholesalers were located nearby but outside this general area.) Wall Street was the main business thoroughfare for the market and most of the floral establishments opened onto this street.

Facilities

The facilities on the market were provided for the use of both buyers and sellers, but primarily for sellers. These facilities included land, improvements thereon, and fixtures for selling, parking, storing, and office space for the market managers' office.

Selling spaces.--Selling spaces were adjoining open stalls with tables, and enclosed stores equipped with counters and shelves. The selling spaces were concentrated principally in two submarkets located across the street from each other. The Southern California Flower Growers, Inc., rented 103 stalls to its grower-wholesaler members in the Southern California Flower Market (fig. 8). The American Floral Exchange rented 100 stalls, of which 20 were located in an outside parking lot.

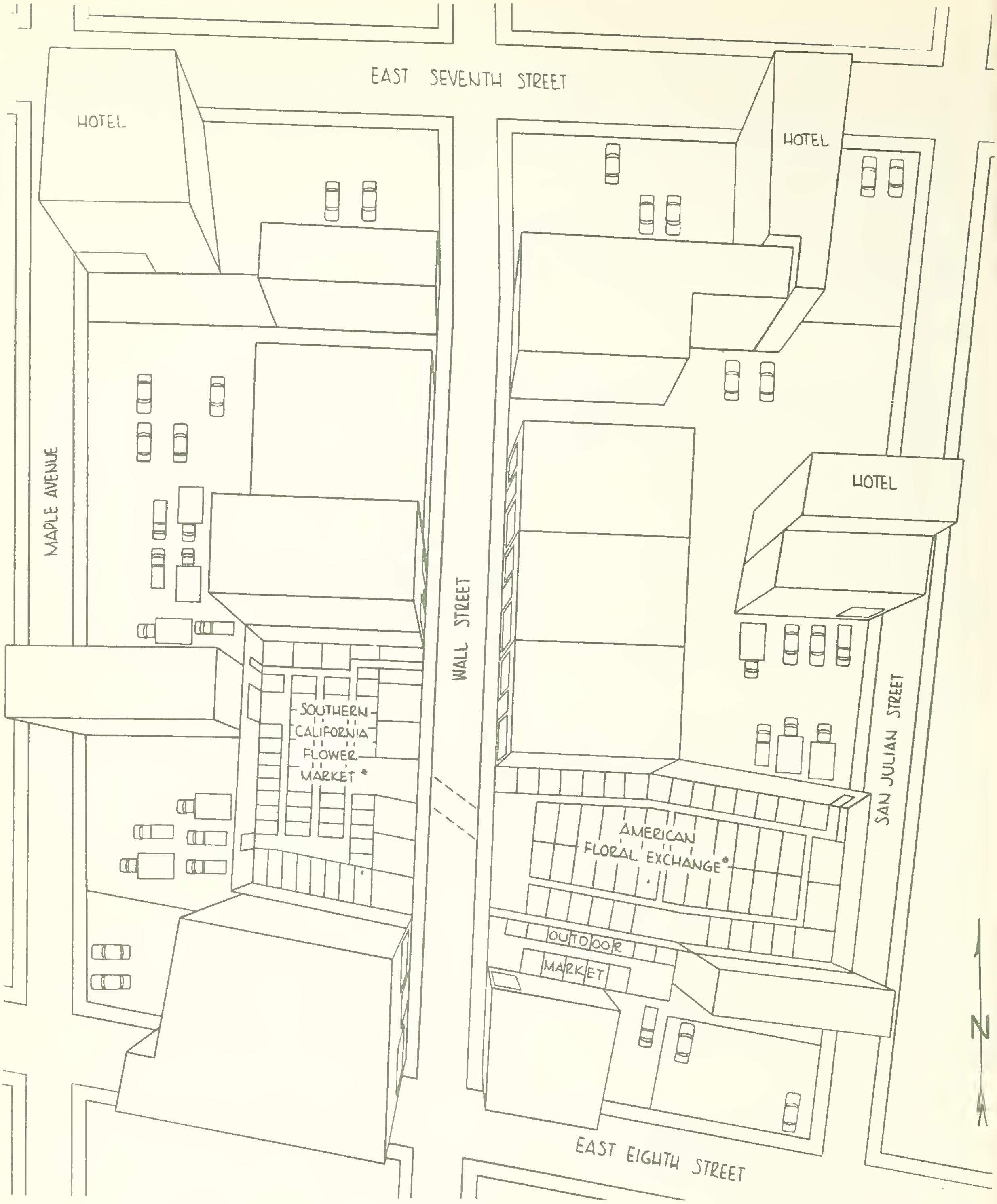


Figure 7.--Real estate facilities on the Los Angeles flower market, 1957

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Figure 8.--Selling stalls in the Los Angeles flower market.

Parking facilities.--The greatest expansion of the market in recent years was in the amount of off-street parking space provided by the two submarkets for buyers and sellers. About 50 percent of the two-block area used by the flower market was allocated for parking. This space was inadequate, however, between 2 a.m. and 9 a.m. on the three mornings when the submarkets were functioning.

Storage facilities.--Storage facilities on the market were refrigerated space for cut flowers and greens, bench and shelf storage for merchandise available for sale, and dry storage for such materials as boxes, twine, and paper. The amount and use of refrigerated space was of particular importance since it helped to regulate both supplies and prices. Most of the commission and merchant wholesalers and shippers on the market owned or leased refrigeration units. Only a few of the largest grower-wholesalers, on the other hand, had or used such facilities on the market.

Organization

In 1956 the floral industry in southern California used about 94 percent of the land space in the block west of Wall Street; approximately 60 percent was owned, or controlled on a long-term lease, by the Southern California

Flower Growers, Inc., or its subsidiary corporations. About 95 percent of the block east of Wall Street was used by the floral industry; 75 percent of this land was owned or controlled by the American Floral Exchange. By examining the structure and management practices of these two firms, we can understand their significance in the wholesaling process.

The Southern California Flower Growers, Inc., and the American Floral Exchange both were owned and controlled by floral growers and were essentially real-estate management firms.

Southern California Flower Growers, Inc.

To acquire membership in this organization, an eligible person must buy a share from a member who is willing to sell. When growers sell their business, they usually include their share of stock as a part of the sale. The price for shares, which originally sold for \$25, ranged from \$3,000 to \$4,000 in 1956. This price was based on the right to rent a stall or store and sell in the controlled market, and to share in the association's earnings and assets.

The stores rented for \$125 per month. Stall rentals ranged from \$26 for the smallest spaces to \$100 monthly for the largest ones. Tenants of the larger spaces, located farthest from the main flow of foot traffic, paid substantially less per square foot than the tenants of the smaller stalls. Stall rentals per square foot per month ranged from 22 cents to nearly \$1, averaging 35 cents.

The Southern California Flower Growers' Association usually charges its members the actual costs of operating the market. Surpluses are returned to members as a dividend.

The parent company owned two subsidiary corporations in 1956. One was an investment company, organized for the purpose of owning and renting market real estate other than the growers' market. For example, this investment company operated the parking lots next to the growers' market. The other corporation, a floral wholesaling firm, was active in out-of-State shipping and in selling floral commodities to local retailers and wholesalers. To compete profitably, the firm has had to buy merchandise from other growers and wholesalers as well as from its owner-members. In this way the firm competed with its own members for the local trade.

American Floral Exchange

The American Floral Exchange is a profit corporation owned and controlled by a small number of large growers, some of whom sell on the market. The corporation has issued common and preferred stock. The voting or common stock is held by the original founders or their families. The preferred stock is held by the stall or store lessees of the Exchange.

In 1956 there were 100 indoor and outdoor selling stalls on the American Floral Exchange, which occupied considerably more space than the Southern California Flower Growers, Inc. The covered stalls rented from \$37.50 to \$300 per month and the outdoor stalls from \$20 to \$45 per month. The rental per square foot amounted to about 18 cents. Large and small spaces were priced

alike, except for the higher-priced stalls which were located nearer the rear and front entrances.

The preferred shares originally sold for $50 each; in 1956, they sold for as much as $1,250, reflecting the value of an assured right to sell on the market. (Prior to the last expansion, preferred shares were selling for as much as $2,500 each.) The Exchange did not repurchase the preferred shares--all transactions of this stock were between interested parties. In recent years the Exchange has paid an annual dividend of $10 per preferred share.

The economic interests of the lessees on the American Floral Exchange differ markedly from those of the owner-member-lessees on the Southern California Flower Market. In spite of its space obligations to its preferred stockholders, the closely controlled Exchange was freer to respond to changes in the flower business. Its lessees were less interested in staying in business to capitalize on market real estate values. The turnover of lessees on the Exchange was greater and leases were more readily available. Consequently, small grower-wholesalers were giving way to larger wholesalers (mostly commission and merchant wholesalers) more rapidly on the Exchange than on the Southern California Flower Market.

Southern California Floral Association

The Southern California Floral Association, with offices on the market, attempted to regulate the time during which the market facilities were used, and certain buying and selling practices of traders on the market. In addition, it performed other trade association functions, such as sponsoring flower shows, publishing a trade journal, and arbitrating trade disputes.

Association membership.--The Association is a nonprofit organization whose members are individuals and firms in the floral industry and such related firms as seedsmen, floral supply houses, fertilizer manufacturers, and paper suppliers. Membership is virtually mandatory for those who personally trade on the market.

The 1956 membership included nearly 1,000 buyers (retail florists) and approximately 500 sellers (growers and wholesalers). The two membership classifications used for voting and office holding were buyers and sellers. Ten members, five from each group, constitute the board of directors. Annual dues in 1956 were: Retailer, grower, or routeman, $30; commission man, $36; shipper, $72; and multiple operator, $90.

The retail florists, because of their large number, paid the most in total dues to the Association. The buyer group was given an extra member on the board in 1956, and the board was increased from 9 to 10 members (3).

Because of the many diverse and changing interests of its members the Association's activities were restricted to a few noncontroversial programs. For example, by 1956 after numerous attempts it was unable to conduct a consumer-advertising program, although this is a common activity of similar industrywide associations in Eastern cities. It was more effective in regulating market activities and in tempering the influence of economic changes on the buyers and sellers on the market.

Regulation of trading hours and places.--The Association regulates the time and place of trading on the market, deriving its power from the consent of the owners and tenants of the market facilities. Most of the trading took place on the mornings of Monday, Wednesday, and Friday when the growers brought their crops to market. Paid Association guards restrained sellers from entering their places of business before 2 a.m. No deliveries were permitted out of the markets before 4:30 a.m. and no buyers were allowed on the two submarkets until 6:30 a.m. ordinarily and 5:30 a.m. at holiday periods (fig. 9).

On Tuesday, Thursday, and Saturday, no controls were exercised over opening and closing hours or where trading might take place. On those days, only commission and merchant wholesalers were on the market and they opened between 5 and 7 a.m. and closed between noon and 4 p.m. These were the normal hours prevailing in 1956; they changed periodically, but the trend has been toward earlier opening.

The Los Angeles market had evolved into a dual market in 1956 from its beginning as an over-the-counter (inspection) market. The first, early-morning market was patronized by buyers of top-quality merchandise--shippers, routemen, merchant buyers (representing retail florists), and a few retail florists. All buyers were excluded from the submarkets to permit wholesalers to assemble and arrange their merchandise and to wrap their standing orders between 2 and 4:30 a.m., and to make intramarket deliveries between 4:30 and 6:30 a.m. Early morning purchases were accomplished in the street, at cafes, in the parking lot, or by phone. The second market was the late-morning, over-the-counter market in which unsold merchandise--usually available in abundance--was offered for sale.

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Figure 9.--Buyers being admitted by market guards to the Southern California Flower Market in Los Angeles. (Picture supplied by Southern California Floral Market.)

Regulation of buyers.--Another important economic control exercised by the Association pertained to buyers. In cooperation with the owners and tenants of the market facilities, the Association attempted to prohibit nonmembers from buying on the market. The Association acquired this authority unintentionally following the adoption of the California Retail Sales and Use Tax law in 1933.

The California law requires all sellers of floral commodities (as well as most other consumer goods) to obtain sales-tax permits whether they sell at retail or wholesale. Anyone buying for resale is granted a certificate that exempts him from paying the sales tax (3 percent in some counties and 4 percent in others). The seller, in turn, must note the buyer's name, address, and tax exemption certificate number on each sales slip. Every change of business address necessitates obtaining a new sales tax permit and exemption certificate.

Trading on the market would be slowed considerably if each of the more than 200 sellers had to proceed through this routine with every buyer and every sale. The Association solved the problem, with the sanction of the State Board of Equalization (which administers the tax law), by having each buyer (retail and wholesale florist) register his exemption certificate with the Association, receiving a numbered buyer's button in exchange. A seller need write only the button number on the sales slip, which is adequate, too, for his accounting records. (Board of Equalization agents frequently "shopped" the market to ascertain that wholesalers were either selling only to tax-exempt firms or collecting the tax.)

The button system was of great convenience and economy to the State Board of Equalization and to the Association members buying and selling on the market. It helped to hold the Association and the market together by providing a cohesiveness often lacking in such voluntary groups. The Association's authority over buyers would be limited without the support of the two floral exchanges. Even given this support, the Association's effectiveness was weakened by (1) many nonflorist retailers coming to the market to buy dried materials, ribbons, containers and so forth; (2) a growing number of distant nonmember florists buying on the market occasionally by phone or in person; and (3) newcomers to the trade looking upon it as a public rather than a private market. For example, a number of southern California retail florists formed their own areawide association in 1956. Among other things, they were seeking greater buying protection for themselves in the wholesale market than the Southern California Floral Association apparently could provide (9).

As expected, conflicts of interest were common among the diverse groups in the market. The rules were designed to lessen tensions but helped to perpetuate a marketing system that appeared quite out of place in a dynamic economy. Nonetheless, buyer-seller relationships were changing, though slowly. The changes in the industry were more pronounced when compared to another wholesaling trade, such as the wholesale grocery business. Floral wholesaling in southern California in 1956 had yet to achieve the stage of development found in the wholesale grocery trade in 1920 (10).

SIZE OF WHOLESALING FIRMS

Gross Sales

The 54 wholesalers interviewed in this study, with about $8 million in sales in 1956, accounted for about 44 percent of the total wholesale sales of floral products in southern California (table 7). Each group, though small in number, represented a substantial portion of the sales for that particular type of wholesaling.

The largest firms, on the average, were merchant wholesalers and the smallest were cut-flower grower-wholesalers. Potted-plant grower-wholesalers, on the average, were about double the size of cut-flower wholesalers. The medium-sized cut-flower commission wholesaler did as much business as about seven cut-flower grower-wholesalers of median size. The cut-flower routemen had smaller volumes than potted-plant routemen. The large spread between median sales and average sales for the two grower-wholesaler groups suggests that there were a few large firms among many small grower-wholesalers.

A wide range in volume of business is typical of floral wholesalers in southern California. Nearly 30 percent of the 54 firms studied intensively had sales of less than $50,000 per year in 1956 and the total sales of this group accounted for less than 5 percent of the total sales (table 8). About one-half of the wholesalers accounted for less than 15 percent of the total volume. At the other extreme, 22 percent of the wholesalers accounted for more than one-half of the total volume of business.

The volume of business of floral wholesalers in southern California was estimated to be $18,250,000 in 1956. The 18 largest wholesalers in this survey accounted for 30 percent of total sales and the 35 largest wholesalers accounted for 75 percent or more of the region's total wholesale volume.

Number of Employees

The number of employees is less reliable for volume classification than total sales, because grower-wholesalers used much unpaid family labor. The number of paid full-time employees (not including the owner, manager, or partners) for five types of wholesalers is shown in table 9.

Size of firm by type of wholesaler.--The cut-flower grower-wholesalers, in particular, operated small firms. About two-thirds of the firms employed two people or less on a full-time paid basis in 1955. The potted-plant grower-wholesalers operated larger establishments; nearly half employed more than six full-time workers.

Commission and merchant wholesalers, operating in competition with the many cut-flower grower-wholesalers on the Los Angeles market, tended to be small, too. More than half had less than two full-time employees; the largest reported only seven such employees.

Cut-flower shippers, on the other hand, because of their volume of business, tended to be larger than the other types of cut-flower wholesalers. Forty-two percent had more than 10 full-time paid employees. Routemen, because of their one-man, one-truck type of operation, had a small number of paid employees per firm; 60 percent had none at all.

Need for part-time help.--The amount of part-time help reported in 1955 by each type of wholesaler in relation to the full-time help was as follows:

Type of wholesaler	Number of part-time workers per full-time employee
Cut-flower grower-wholesalers	0.84
Potted-plant grower-wholesalers	.24
Cut-flower commission and merchant wholesalers	.80
Cut-flower shippers	.25
Routemen	.55

The firms combining growing and wholesaling of cut flowers, especially those producing but one or two seasonal open-field crops, were more dependent on part-time help than others were.

Sales per Labor Unit

Average sales per unit of labor employed by seven types of wholesalers are shown in table 10. Some firms, mostly grower-wholesalers, used hired labor for both growing and wholesaling. Therefore, the two grower-wholesaler groups should be considered separately from the others who did little or no growing.

Grower-wholesalers.--The low output per unit of labor ($6,810) for the cut-flower grower-wholesalers reflects chiefly the large amount of labor they required. The range in output per unit of labor for this group was from $5,413 to $7,830. The kind of crops produced and their degree of seasonality are two of the principal determinants of the value of output per unit of labor (table 11).

Potted-plant grower-wholesalers had more than double the value of output per unit of labor that cut-flower grower-wholesalers had. The larger grower-wholesalers (cut-flower and potted-plant) had the greatest value of sales per unit of labor employed.

Wholesaling specialists.--Among the more specialized wholesalers, the cut-flower routemen, with their usual one-man, one-truck operations, had the highest dollar sales per unit of labor. The routemen worked more hours per week, probably because of the distances traveled, than most of the other cut-flower wholesalers did. The potted-plant routemen had much larger sales per firm than cut-flower routemen, but their labor requirements were much higher per dollar of sales. The commodities handled by potted-plant routemen have much lower unit values than those sold by cut-flower routemen.

Among the commission and merchant wholesalers, commission houses sold more per unit of labor than either merchant wholesalers or shippers. Commission wholesalers specialized in selling flowers and provided a minimum of services. They had a concentrated operation, used little space, and had little capital invested in their business.

In the commission and merchant wholesaling groups, shippers had the lowest sales per labor unit. Shippers provided more hauling and packing than commission and merchant wholesalers. The marketing charges of these three groups were inversely related to their volume of sales per unit of labor. Commission men had the lowest markups, or gross marketing margins, and shippers the highest.

Table 7.--Sales of floral products, 54 wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Wholesalers reporting	Total gross sales	Average sales	Median sales
	Number	Dollars	Dollars	Dollars
Cut-flower grower-wholesalers	19	1,298,905	68,363	25,000
Potted-plant grower-wholesalers	8	1,144,676	143,084	50,000
Cut-flower commission wholesalers	5	888,240	177,648	165,000
Cut-flower merchant wholesalers	6	1,663,232	277,205	300,000
Cut-flower shippers	5	1,277,182	255,436	300,000
Greens-and-dried-materials merchant wholesalers	4	884,800	221,200	225,000
Cut-flower routemen	4	307,203	76,800	75,000
Potted-plant routemen	3	551,033	183,677	200,000
Total or average	54	8,015,271	148,431	110,000

Table 8.--Gross sales of 54 floral wholesalers, by amount of sales and percentage of total sales, southern California, 1956

Gross annual sales	Wholesalers reporting		Gross sales	Percentage of total gross sales
	Number	Percent	Thousand dollars	Percent
Under $50,000	16	29.6	363	4.5
$50,000 to $99,999	11	20.4	827	10.2
$100,000 to $149,999	4	7.4	483	6.0
$150,000 to $199,999	5	9.2	951	12.0
$200,000 to $249,999	6	11.1	1,338	17.0
$250,000 to $299,999	6	11.1	1,709	21.1
$300,000 and over	6	11.2	2,344	29.2
Total	54	100.0	8,015	100.0

Table 9.--Percentage of floral wholesalers having specified numbers of paid full-time employees, 134 wholesalers by type of wholesaler, southern California, 1955

Type of wholesaler	Wholesalers reporting	Average number of paid full-time employees							
		0	1	2	3-5	6-10	11-20	Over 21	Total
	No.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Cut-flower grower-wholesalers	60	33	10	23	18	10	3	3	100
Potted-plant grower-wholesalers	27	18	4	19	15	11	18	15	100
Cut-flower commission and merchant wholesalers	18	33	17	17	39	5	---	---	100
Cut-flower shippers	24	12	---	8	17	21	25	17	100
Routemen	5	60	---	20	20	---	---	---	100
Total or average	134	26	7	19	20	11	10	7	100

Table 10.--Sales per unit of paid full-time labor, 39 floral wholesalers by type of wholesaler, southern California, 1956 1/

Type of wholesaler	Wholesalers reporting	Average sales per unit of paid labor
	Number	Dollars
Cut-flower grower-wholesalers	13	6,810
Potted-plant grower-wholesalers	5	13,806
Cut-flower commission wholesalers	5	46,832
Cut-flower merchant wholesalers	6	39,691
Cut-flower shippers	4	33,868
Cut-flower routemen	3	52,400
Potted-plant routemen	3	22,644

1/ This includes the labor of owners, managers, and partners. Part-time paid labor was converted to full-time on the basis of 3 part-time workers being equal to 1 full-time worker.

Table 11.--Percentage distribution of seasonal sales of specified floral commodities, southern California, 1956

Floral commodity	Winter	Spring	Summer	Fall	Total
	Percent	Percent	Percent	Percent	Percent
Cut flowers:					
Asters	4	61	22	13	100
Birds of paradise	26	50	7	17	100
Carnations	28	36	17	19	100
Chrysanthemums, pompons	35	1	8	56	100
Chrysanthemums, standards	22	3	10	65	100
Daisies	12	67	12	9	100
Gladiolus	9	30	36	25	100
Orchids	35	37	11	17	100
Roses	31	27	15	27	100
Stock	54	36	4	6	100
Miscellaneous	25	32	17	26	100
Potted plants:					
Flowering plants	19	47	17	17	100
Foliage plants	22	28	22	28	100
Greens	31	29	14	26	100
Dried materials	12	19	37	32	100
Average	25	32	19	24	100

BUSINESS CHARACTERISTICS RELATED TO SIZE OF FIRM

Long-Range Growth of Wholesalers

While the total sales of the floral industry were increasing, the sales of some firms were increasing more rapidly than others.

Cut-flower shippers operating away from the Los Angeles market (specializing in stock, gladiolus, cymbidium, orchids, and carnations) had by far the most rapid growth in sales--an increase of 141 percent--since 1953; foliage-plant grower-wholesalers ranked second. In contrast, cut-flower grower-wholesalers, operating mostly on the Los Angeles market, reported an increase of only 20 percent in their sales between 1953 and 1956. 7/

7/ 1956 sales were compared with 1953 sales rather than with 1950 sales, because the available pre-1953 data were inadequate. Fourteen of the 54 wholesalers, for example, were not in business in 1950, and about an equal number did not supply the relevant figures. The number of replies from routemen was too small to permit a comparison of their sales.

The sales of commission and merchant wholesalers exhibited a mixed trend--some up and some down--in 1953-56. The commission wholesalers (lumped together with "others" in table 12) reported a sales increase of more than 50 percent. On the other hand, the cut-flower merchant wholesalers, who were shippers as well, showed the greatest decline in total sales. Their commission sales had increased since 1953 but not enough to offset the decline in their out-of-State sales.

Table 12.--Change in gross sales, 33 floral wholesalers by type of wholesaler, southern California, 1956 over 1953

Type of wholesaler	Wholesalers reporting	Change, 1956 over 1953
	Number	Percent
All cut-flower grower-wholesalers	14	+20
On Los Angeles market	10	+22
Off Los Angeles market	4	+16
Commission and merchant wholesalers	9	-23
Cut-flower merchant wholesalers	4	-37
Others	5	+26
Cut-flower shippers	3	+141
Potted-plant grower-wholesalers	7	+50
Foliage-plant grower-wholesalers	3	+51
Flowering-plant grower-wholesalers	3	+38

One may conclude from these data that specialized wholesalers handling the more popular floral products grew faster than grower-wholesalers, especially those handling less popular products.

Seasonality of Commodity Sales

In the southern California floral industry as a whole nearly one-third of the total sales in 1956 occurred during the 3 spring months. The slack season followed in the summer. This is typical for the floral industry. Not all of the wholesalers, however, had the same pattern of sales (table 13).

Type of wholesaler.--The cut-flower commission wholesalers had fairly regular sales throughout the year. Their business was tied closely to the availability of gladiolus, which, unlike most flowers, sold well on the Los Angeles market in the summer. The cut-flower routemen's sales differed from those of other wholesalers because of the large volume of business in the desert and interior areas in winter. Summer sales by routemen were low because of the outflow of population from the desert and interior regions because of the heat.

Table 13.--Floral wholesalers' seasonal sales as percentage of annual sales, by type of wholesaler, southern California, 1956

Type of wholesaler	Percentage of total sales				Total
	Winter	Spring	Summer	Fall	
	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers	26	30	18	26	100
Cut-flower commission wholesalers	25	28	26	21	100
Cut-flower merchant wholesalers	28	29	16	27	100
Cut-flower shippers	27	41	14	18	100
Cut-flower routemen	40	29	19	27	100
Greens-and-dried-materials merchant wholesalers	25	29	19	27	100
Potted-plant grower-wholesalers	21	34	22	23	100
Foliage-plant grower-wholesalers	21	29	21	29	100
Flowering-plant grower-wholesalers	21	45	23	11	100
Potted-plant routemen	23	26	22	29	100
Average	25	32	19	24	100

Cut-flower shippers and flowering-plant grower-wholesalers had higher spring sales than the others did. The Easter-Mother's Day season favors flowering-plant sales and increased shipment of orchids and carnations out of the area.

Potted foliage-plant grower-wholesalers and routemen had fairly even sales volumes throughout the year. The regular availability of these products, their durability, and their sales through retail food and variety stores have had much influence on the uniform pattern of sales by these groups.

Type of commodity.--A particular effort was made to obtain reliable seasonal sales data for the leading cut flowers traded in southern California (table 11). Similar data were not obtained for the numerous foliage and flowering plants and greens sold in the area. Philodendrons are the most important foliage plants grown in southern California. Among flowering plants, azaleas, lilies, cyclamens, African violets, poinsettias, hydrangeas, and mums were the principal varieties on the market. The leading greens were lemon, eucalyptus, huckleberry, and fern. Dried materials sold included shrubs, poles, grasses, and pods--mostly of desert origin.

The seasonal pictures for both wholesaler and commodity sales were the same--low summer sales following peak spring sales. Most of the leading cut flowers, however, diverged markedly from the normal sales pattern. For example, chrysanthemums appeared to be largely fall flowers; gladiolus sales were highest in summer when general demand was lowest; stock was a winter-spring crop; daisies and asters were timed for spring sales, as were birds of paradise. Orchids, roses, and carnations, which are produced year-round, exhibited the most stable sales.

The seasonality of both commodities and consumer preferences creates management problems for growers and wholesalers alike. Commercial growers producing seasonal crops must choose a combination of crops that will make the best use of their labor, land, and capital. Timing of all operations from planting to selling can mean success or failure. Most small growers follow the lead of others to simplify their management problems.

Shifting consumer preferences contribute to sales uncertainties not only from season to season but also from year to year. An example of shifting preferences is the rather rapid rise in the production of stock, gladiolus, carnations, chrysanthemums, and potted foliage plants since 1950.

Length of Time in Business

Nearly two-thirds of the 134 responding wholesalers had been in the business less than 10 years in 1955 (table 14). Many firms were dissolved during World War II and new ones entered the business after the war. The postwar growth of floral sales seems to have been accomplished as much by the entry of new firms, especially among the more specialized wholesalers, as by the growth of prewar firms.

Table 14.--Percentage of floral wholesalers in business for specified numbers of years, 134 wholesalers by type of wholesaler, southern California, 1955

Type of wholesaler	Wholesalers reporting	Number of years in business					
		0-5	6-10	11-15	16-25	Over 25	Total
	No.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Cut-flower grower-wholesalers	60	12	51	15	10	12	100
Potted-plant grower-wholesalers	27	15	44	11	15	15	100
Cut-flower commission and merchant wholesalers	18	33	22	6	28	11	100
Cut-flower shippers	24	46	21	8	21	4	100
Routemen	5	20	40	0	20	20	100
Total or average	134	22	40	11	16	20	100

No close relationship was noted between length of time in business and size of business for the 60 cut-flower grower-wholesalers. Firms producing such crops as birds of paradise, stock, and gladiolus reported larger acreages and capital investments than other cut-flower growers. They were not only larger generally but also tended to grow with age. Growth with age was less pronounced for the firms concentrating on such crops as asters, daisies, ranunculas, and pompons. The production of these requires small acreages and large investments of labor per operating unit.

Potted-plant grower-wholesalers, most of whom have large capital investments in greenhouses, exhibited a definite tendency to grow larger as they accumulated capital and added years of experience. Firms which had been operating for 30 years were about 4 times the size of firms operating for 10 years or less. Length of time in business, however, is not the main factor which determines the size of cut-flower and potted-plant growers. The rate of industry growth, the availability and use of capital, and the type of products grown are more important.

Cut-flower commission and merchant wholesalers showed a slight tendency to grow slowly with experience. Firms which had been in business for 30 years were about twice the size of those in business for 5 years. There was a sizable increase in the number of commission and--to a lesser degree--merchant wholesalers operating in southern California between 1950 and 1955; one-third of the firms reporting were less than 5 years old.

Cut-flower shippers operating off the central Los Angeles market were newer and, on the average, larger than those on the market. Shipping firms in general seem to have a short business life. Cut-flower shippers on the Los Angeles market usually began as small operators with 2 to 6 full-time employees, and in 12 to 15 years reached their peak in size with 10 to 12 full-time employees. From then on they began to diminish in size. The decline in the sales of merchant wholesalers was due primarily to a falling-off in the shipping business of the older merchant wholesalers located on the Los Angeles market. This tendency of shipping firms to grow large and then decline within a short span of years needs further investigation.

Type of Business Organization

All three types of business organizations--proprietorships, partnerships, and corporations--were operating in floral wholesaling in southern California in 1956 (table 15). Proprietorships predominated in number and corporations in volume of sales. There seemed to be no preferred form of organization by type of wholesaler. Proprietorships, however, were most common among cut-flower grower-wholesalers; there were no corporations among routemen in the sample.

Table 15.--Average and median sales, 54 floral wholesalers by type of business organization, southern California, 1956

Type of business organization	Wholesalers reporting	Average sales	Median sales
	Number	Dollars	Dollars
Proprietorship	23	92,474	55,000
Partnership	15	142,385	100,000
Corporation	16	234,372	218,000

Partnerships prevailed chiefly within family businesses (father-son, brother-brother). Partners usually specialized either in production, selling, or accounting. Corporations tended to predominate where heavy capital investment was required, management employees were needed, and owners wished to reduce their personal economic risks, which are of real concern in this industry. Multiple-ownership businesses, partnership or corporate, were associated with capital needs, amount of risk, and labor specialization.

A few large firms were operating as proprietorships but most proprietorships were small, as indicated by the spread between the median and average size of firms. The range in sizes, however, was widest among partnerships and narrowest among corporations. Partnerships did about twice as much business as proprietorships and corporations about twice as much as partnerships.

There was only one cooperative, the Santa Barbara Orchid Exchange, in southern California in 1956. It was organized in 1953 and had 35 members growing mainly cymbidium orchids. The cooperative imposed rigid quality standards on its members and had the power to penalize those who sold through other channels. The cooperative had contracted with a leading grower-shipper to act as its selling agent; this firm received a stipulated commission on all sales made for the Exchange. The selling agent increased the cooperative's sales more than 100 percent between 1953 and 1956; and this at a time when orchid prices were falling on the Los Angeles market. Of what importance are quality and commodity controls? Perhaps this business arrangement is superior to other methods of wholesaling floral products?

SOURCES OF SUPPLY AND SALES OUTLETS

Supply sources and sales outlets are considered together because of the significant volume of transactions among wholesalers, which interrupts the direct flow of commodities. The sources of supply are shown in table 16; sales outlets are shown in table 14.

The 54 wholesalers interviewed in this study reported total sales of $8,015,271. On the average they grew 35 percent of the floral crops which they sold; 34 percent came from other growers (located off the Los Angeles market); 19 percent from other wholesalers located on and off the Los Angeles market; and 12 percent from growers and wholesalers outside the southern California area (table 16).

On the sales side, over two-thirds of the floral commodities went to sales outlets in southern California, while less than one-third was sold out of the area (table 17). Sales to local retail florists accounted for 36 percent of the total. Other retailers, such as variety stores and food stores, accounted for about 11 percent of sales. These mass outlets handled considerably more floral commodities than retail nurseries did. A small proportion of the total was accounted for by sales to plant growers, mainly of propagating materials, or of plants which they prepared for final sale.

Sales between wholesalers made up nearly one-fifth of the total wholesale volume (table 17). This does not include commodities which the wholesalers grew and sold as growers to other wholesalers. Many commodities were sold at wholesale more than once, increasing the total value but not the total physical volume of trade.

Table 16.--Total gross sales and percentage of supplies obtained from specified sources, 54 floral wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Total gross sales	Supply source: In southern California: Grown by wholesaler	Supply source: In southern California: Wholesalers on the Los Angeles market	Supply source: In southern California: Wholesalers off the Los Angeles market	Supply source: Out of southern California	Total
	Dollars	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers:						
On the Los Angeles market	1,020,544	100	---	---	---	100
Off the Los Angeles market	278,361	94	---	6	---	100
Cut-flower commission wholesalers	888,240	3	3	93	1	100
Cut-flower merchant wholesalers	1,663,232	4	66	24	6	100
Cut-flower shippers	1,277,182	34	2	64	---	100
Cut-flower routemen	307,203	3	91	5	1	100
Greens-and-dried-materials merchant wholesalers	884,800	3	8	11	78	100
Foliage-plant grower-wholesalers	840,660	82	---	6	12	100
Flowering-plant grower-wholesalers	304,016	73	4	8	15	100
Potted-plant routemen	551,033	10	---	88	2	100
Total or average	8,015,271	35	19	34	12	100

Table 17.--Percentage of sales made to specified outlets, 54 floral wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Sales outlet: In southern California: Retail florists	Merchant wholesalers	Commission wholesalers	Cut-flower routemen	Retail merchandisers	Retail growers	Retail nurseries	Plant routemen	Out of southern California	Total
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers:										
On the Los Angeles market	57	32	---	10	---	---	---	---	1	100
Off the Los Angeles market	25	---	18	---	---	---	---	---	57	100
Cut-flower commission wholesalers	66	11	2	19	---	---	---	---	2	100
Cut-flower merchant wholesalers	41	1	---	14	---	---	---	---	44	100
Cut-flower shippers	1	---	---	---	---	---	---	---	99	100
Cut-flower routemen	83	---	---	---	---	---	---	---	17	100
Greens-and-dried-materials merchant wholesalers	49	6	---	34	---	---	---	---	11	100
Foliage-plant grower-wholesalers	6	---	---	---	27	20	16	7	24	100
Flowering-plant grower-wholesalers	69	---	---	---	14	6	4	5	2	100
Potted-plant routemen	8	---	---	---	73	---	8	2	9	100
Total or average	36	1/	1/	1/	9	2	2	1	32	100

1/ Average sales to merchant wholesalers, commission wholesalers, and cut-flower routemen were not computed separately. Total sales to these three outlets averaged 18 percent.

Sales between wholesalers raise numerous questions. Why does this activity take place, especially to such a large extent? Who does it? What effect does it have on the costs of wholesaling and the quality of the merchandise?

Channels of sale by product origin.--It is impossible, without more data, to trace the flow of a specific floral commodity, say roses, from their origin through the different wholesalers to the different types of retailers. In general, most imports were for local consumption, although some types, such as Hawaiian flowers and plants, might be transshipped to Eastern buyers. Generally, commodities purchased from growers off the Los Angeles market were destined for out-of-State shipment. The commodities sold between wholesalers were used mainly to fill orders of local retail florists. The commodities wholesalers grew themselves might be either shipped out or sold locally to retail florists.

Sources and Outlets by Type of Wholesaler

Grower-wholesalers grew almost all of the commodities they sold. The small amounts of merchandise which cut-flower and flowering-plant wholesalers purchased on the Los Angeles market were used primarily to fill orders. The major wholesale buyers on the Los Angeles market were cut-flower merchant wholesalers and routemen--many of whom were buying on order for retail florists. One of the merchant wholesalers reporting was a San Diego merchant, but he purchased more than half of what he needed on the Los Angeles market. His sales were nearly all to retail florists in San Diego.

Cut-flower shippers and commission men, and potted-plant routemen, on the other hand, obtained a majority of their supplies from southern California growers or wholesalers off the Los Angeles market. The greens-and-dried-materials merchant wholesalers obtained more than three-fourths of their merchandise--mostly greens--from sellers outside southern California. The imports of plant grower-wholesalers were chiefly materials for further propagation and growing on.

Four major points were noted with respect to sales outlets. The first was that the outlets for cut flowers and flowering plants were quite different from those for potted foliage plants. Cut-flower and flowering-plant wholesalers sold largely to retail florists; potted-foliage-plant wholesalers (grower-wholesalers and routemen) sold mainly to retail merchandisers, retail nurseries, plant routemen, and buyers out of the area.

The second was that cut-flower grower-wholesalers, commission wholesalers, and merchant wholesalers located on the Los Angeles market catered mainly to retail florists. However, in 1956 the cut-flower grower-wholesalers sold nearly as much to other wholesalers as to retail florists (table 17). This is reported as a growing practice among cut-flower grower-wholesalers. Commission wholesalers, too, disposed of nearly a third of their total sales to other wholesalers.

Merchant wholesalers were the chief buyers from the grower-wholesalers and purchased mainly to fill shipping orders. They bought considerably less from commission wholesalers because much of the merchandise handled by the latter group consisted of flowers and plants which outlying shippers could not or would not ship.

The third was that routemen were important outlets for all types of wholesalers on the Los Angeles market, especially for the greens wholesalers. These routemen sold almost exclusively to retail florists. In 1956 they purchased less from grower-wholesalers than from the other wholesalers, primarily because grower-wholesalers were not in favor of selling to routemen. The reasons for this opposition will be discussed later.

The fourth major point was that greens-and-dried-materials merchant wholesalers were essentially importers of large quantities of merchandise which they distributed to local retail florists (directly and through routemen) and to buyers out of southern California. Their sales to other wholesalers for resale to retail florists were almost as large as their own sales directly to retail florists.

WHOLESALING METHODS AND PRACTICES

The principal roles of floral wholesalers are assembling floral commodities from a scattered group of suppliers and disposing of them to a scattered group of buyers at a later stage in marketing. Where are these transactions made, what buying and selling methods are employed, and are they on a cash or credit basis?

Location of Sale

"Location of sale" means the place where the purchase and physical transfer of the commodities from seller to buyer take place. Wholesalers were found to transfer title and physical possession at four major locations: (1) On the wholesale market (either Los Angeles or San Diego); (2) at an assembly point, such as shippers' premises; (3) at the growers' farms; and (4) upon delivery. The relative importance of these different transfer points is shown by commodity group in table 18, by type of wholesaler in table 19, and by type of buyer in table 20. These data are for sales to southern California buyers only.

Table 18.--Percentage of sales of specified commodities on and off the Los Angeles wholesale flower market, 54 floral wholesalers, southern California, 1956

Commodity group	On the Los Angeles market	Off the Los Angeles market	Total
	Percent	Percent	Percent
Cut flowers	68	32	100
Foliage plants	3	97	100
Flowering plants	37	63	100
Greens and dried materials	67	33	100
Average	54	46	100

Table 19.--Percentage of sales on wholesale flower markets and at specified locations off the markets, 54 floral wholesalers by type of wholesaler, southern California, 1956 1/

Type of wholesaler	Value of sales	Location of sale: At wholesale markets	At assembly point	At farm	Delivered to buyers: On a route	Delivered to buyers: On special order	Total
	Dollars	Percent	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers	1,133,225	91	---	5	4	---	100
Cut-flower commission wholesalers	873,488	100	---	---	---	---	100
Cut-flower merchant wholesalers	936,472	88	---	---	---	12	100
Cut-flower shippers	10,500	52	29	19	---	---	100
Cut-flower routemen	255,000	---	---	---	100	---	100
Greens-and-dried-materials wholesalers	748,000	67	---	---	33	---	100
Potted-foliage-plant grower-wholesalers	642,456	6	---	40	53	1	100
Potted-flowering-plant grower-wholesalers	298,359	50	8	16	7	19	100
Potted-plant routemen	500,826	---	3	---	97	---	100
Total or average	5,398,326	63	1	7	26	3	100

1/ Los Angeles and San Diego wholesale flower markets.

Table 20.--Total gross sales by 54 floral wholesalers and percentage of sales on wholesale flower markets and at specified locations off the markets, by type of buyer, southern California, 1956

Type of buyer	Total sales in southern California	Location of sale: At wholesale markets 1/	On route	At assembly point	At farm	Special order deliveries	Total
	Dollars	Percent	Percent	Percent	Percent	Percent	Percent
Retail florists	2,870,742	38.0	11.1	0.6	1.5	1.9	53.1
Wholesale florists	1,476,015	25.6	---	---	1.8	---	27.4
Retail merchandisers	670,639	---	11.8	---	---	.6	12.4
Retail nurseries	193,031	---	2.9	---	.4	.3	3.6
Plant growers	187,899	---	---	---	3.2	.3	3.5
Total	5,398,326	63.6	25.8	0.6	6.9	3.1	100.0

1/ Los Angeles and San Diego wholesale flower markets.

Location of sale by commodity group.--The limited data available for commodity sales showed that there was a marked difference among commodities with respect to their location of sale in 1956 (table 18). Cut flowers were physically transferred from seller to buyer mainly at the Los Angeles flower market, as were greens and dried materials. Few foliage plants, however, came to the Los Angeles market and only about one-third of the flowering plants were sold there.

Location of sale by type of wholesaler.--Cut flower grower-wholesalers transferred ownership of most of their commodities at the wholesale markets (table 19). Sales at the farm were made mainly to shippers and merchant wholesalers when flowers were scarce. Although these data do not show it, these grower-wholesalers usually delivered orders to other wholesalers at the markets, and occasionally to retail florists before holidays.

Cut-flower merchant wholesalers transacted 88 percent of their business at the wholesale market, but delivered 12 percent of their commodities to retail florists. In San Diego, nearly all sales were delivered to retail florists. Shippers, on the other hand, picked up much of their merchandise at farms or assembly points.

Greens-and-dried-materials wholesalers sold about one-third of their total sales on routes. The potted-foliage-plant grower-wholesalers were essentially routemen--selling slightly more than half of their total volume from trucks. Foliage plant sales at the farm were mainly to other plant growers. Potted-flowering-plant wholesalers used all five locations. Most of their sales were at the wholesale market; but some operated routes in the fall when market sales were low. Their delivered sales were to retail florists and supermarkets before holidays.

Location of sale by type of buyer.--The type of buyer served at each of the five sales locations is shown in table 20. Retail florists, who are the major buyers in southern California, picked up about 70 percent of their purchases at the wholesale markets. Wholesale florists ranked second as buyers of cut flowers; they bought mainly from other wholesalers at the market. Retail merchandisers and nurseries were serviced mainly by routemen, but some received special deliveries before the holidays.

Methods of Sale

Methods of sale were classified as: Contract, standing order, telephone, inspection, salesmen, and other. These data are for total sales--in and out of southern California.

Contract sales.--Contract sales were of minor importance in 1956; they took place mainly between growers and merchant wholesalers and shippers. The term "guaranteed sale" was often used to describe a contractual arrangement whereby a purchaser would agree to buy a certain quantity and quality of floral commodities at a stipulated price, or in some cases, at no less than a minimum price.

Standing-order sales.--Standing orders were especially important for the cut-flower grower-wholesalers, commission wholesalers, merchant wholesalers, and shippers (table 21). On the Los Angeles market, retail florists (table 22) could obtain top-quality merchandise by placing standing orders.

Telephone sales.--Telephone sales were most important to cut-flower shippers and cut-flower routemen. Shippers made more than half of their sales over the telephone, some to buyers as far away as Canada, Boston, and Miami. The high percentage of telephone sales for the cut-flower merchant wholesalers mainly reflected their shipping sales. The other wholesalers made most of their telephone sales before holidays or special events or when crops were short. Often the callers merely changed their standing orders.

Cut-flower routemen depended on the telephone almost entirely to determine purchases for their next trip. They solicited orders by telephone the day before each market day. All orders were then added together to prepare a buying list. Routemen bought and sold on their own account and assumed all market risks between the time of purchase and sale.

Inspection sales.--Inspection sales were of two types: (1) Over-the-counter sales in the Los Angeles flower market, and (2) route sales of cut flowers and potted plants where the buyer examined the merchandise before buying. At one time inspection was the principal method of sale on the Los Angeles market. In 1956, such sales were made chiefly to small, nearby retail florists, and to the so-called "bucket-shop" florists (those displaying their merchandise in buckets, in open stands on busy street corners), except when products were scarce. Many greens, dried materials, and flowering potted plants were still sold by inspection on the market.

Sales by salesmen.--There were two types of salesmen: (1) Solicitor salesmen, employed by shippers in Eastern markets and by some local plant wholesalers, usually on a commission basis; and (2) route salesmen, employed mainly by the greens-and-potted-plant wholesalers, who solicited orders and filled them immediately from the stock on the truck. Greens were so standardized with respect to the quality and size of the units traded that retail buyers seldom inspected them before buying. Potted-plant routemen, by maintaining a consistent pattern of regular stops and high-quality merchandise, obtained the confidence of buyers, who relied on the routemen to supply their needs.

"Other" sales.--This is a miscellaneous grouping of sales. For example, the "other" sales of the cut-flower grower-wholesalers, cut-flower commission wholesalers were the so-called "blind" sales to other wholesalers, chiefly routemen and shippers on the Los Angeles market. The term "blind buying" was used because the buyers were not permitted to enter the wholesalers' premises to inspect what they were purchasing. They inspected the merchandise only after it was delivered to their stores or trucks, and returned whatever did not meet their specifications.

The "other" sales of the cut-flower routemen were of commodities purchased for speculative selling on their routes. Some routemen did very little speculative buying and selling, but others made as much as 20 percent of total sales in this way.

Table 21.--Percentage of sales by specified methods of sale, 54 floral wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Contract	Standing order	Telephone	Inspection	Salesmen	Other	Total
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers	3	33	11	21	---	32	100
Cut-flower commission wholesalers	---	38	8	21	---	33	100
Cut-flower shippers	---	25	59	---	16	---	100
Cut-flower merchant wholesalers	---	27	34	23	3	13	100
Cut-flower routemen	---	---	94	---	---	6	100
Greens-and-dried-materials merchant wholesalers	---	1	8	15	26	50	100
Potted-plant grower wholesalers	---	34	17	33	3	13	100
Potted-plant routemen	---	---	2	25	35	38	100
Average	1/	24	26	18	9	22	100

1/ Less than 0.5 percent.

Table 22.--Percentage of sales by specified methods of sale to various types of buyers, 54 floral wholesalers, southern California, 1956

Type of buyer	Contract	Standing order	Telephone	Inspection	Salesmen	Other	Total
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
In southern California:							
Retail florists	---	37	20	34	8	1	100
Wholesale florists	2	7	8	6	---	77	100
Retail merchandisers	---	3	1/	38	27	31	100
Retail nurseries	---	---	14	29	6	51	100
Plant growers	---	41	54	---	5	---	100
Out of southern California	---	27	49	2	11	11	100
Average	1/	24	26	18	9	22	100

1/ Less than 0.5 percent.

The "other" selling by the potted-plant grower-wholesalers and routemen (mainly of foliage plants) was under a so-called "guaranteed sale" arrangement with retail merchandisers, mainly supermarkets. A routeman established the store's potted-plant display and then serviced it on a regular route. The store was charged for the plants left for sale and credited for the plants removed from the display.

Methods of Settlement

Settlement of acquisitions and sales.--Wholesalers acquired 65 percent of the commodities they sold from others. Of this amount, 26 percent was acquired on consignment, 27 percent was purchased for cash, and 47 percent was obtained on credit (table 23). The cut-flower commission and merchant wholesalers handled most of the consignment acquisitions.

Most of the cash buying was done by the cut-flower routemen and the merchant wholesalers. These two groups grew little of their own merchandise and bought most of what they sold from others, chiefly on the Los Angeles market. Their customers were mainly retail florists who could also buy on the Los Angeles market at prevailing wholesale prices. To make a profit, therefore, routemen and merchant wholesalers had to buy at lower prices. They were able to do this in two ways: (1) By buying in large quantities, and (2) by buying from other wholesalers and growers for cash. Both cut-flower grower-wholesalers and commission wholesalers sold a large percentage of their commodities for cash. (A sample of only small grower-wholesalers probably would show that more of their sales were for cash than for credit.)

Shippers, greens-and-dried-materials merchant wholesalers, and potted-plant routemen were the principal credit buyers, and also the chief credit sellers.

Financing.--This question often arises in the floral industry: Who provides the trade financing and bears the risks of credit selling? Wholesalers claim that they are the principal financiers for the industry. Data in table 23 suggests, however, that in southern California in 1956 financing was shared in varying proportions between growers and wholesalers.

Retail florists and the customers of shippers are large users of trade credit. How promptly they pay usually depends on how promptly they are paid by their own customers. Wholesalers, in turn, regulate their payments to growers in terms of their collection experience. Oftentimes, growers were not paid for 60 days after the date of sale, particularly by shippers.

Commission wholesalers sold more on credit than they bought in 1956. Most wholesalers paid growers weekly or semimonthly on their consignment accounts but carried their retailer accounts for 30 to 60 days. Usually wholesalers had more credit outstanding than they were receiving from growers. Merchant wholesalers, too, provided more credit than they received. On the other hand, greens-and-dried-materials wholesalers seemed to operate to a large extent on their suppliers' money.

Potted-plant grower-wholesalers provided much financing for their buyers. They grew most of their commodities and sold more than 80 percent of them on credit.

Table 23.--Three methods of payment in floral wholesaling: Percentage of gross sales acquired by each method and percentage sold by each method, 54 floral wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Acquisitions				Sales			
	Con-signment	Cash	Credit	Total 1/	Con-signment	Cash	Credit	Total
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Cut-flower grower-wholesalers	1.2	0.3	---	1.5	2.1	47.3	50.6	100.0
Cut-flower commission wholesalers	93.2	2.9	1.0	97.1	---	41.9	58.1	100.0
Cut-flower shippers	---	2.5	63.5	66.0	1.2	1.2	97.6	100.0
Cut-flower merchant wholesalers	29.7	31.6	35.1	96.4	---	24.0	76.0	100.0
Cut-flower routemen	---	70.9	26.1	97.0	---	23.0	77.0	100.0
Greens-and-dried-materials merchant wholesalers	.4	24.9	74.7	100.0	---	36.0	64.0	100.0
Potted-plant grower-wholesalers	---	.5	21.0	21.5	.1	16.0	83.9	100.0
Potted-plant routemen	---	---	90.1	90.1	---	14.0	86.0	100.0
Average	17.0	18.0	30.0	65.0	0.5	25.5	74.0	100.0

1/ All wholesalers except greens-and-dried-materials merchant wholesalers grew part of what they sold.

PRICING PRACTICES OF WHOLESALERS

No effort was made to gather or analyze wholesale commodity prices. The number of variables involved (quantity, quality, size, origin, and so forth) for 30 or more commodities would have been excessive for manual analysis. Furthermore, these variables were changing constantly. The comments in this section pertain largely to market-period and short-run pricing practices. During a market period, the commodities and amounts on the market are relatively fixed, and demand has a stronger effect on price than the cost of production has. Each market day was a market period on the Los Angeles market. Most price adjustments to a long or short supply were usually made on the late-morning markets rather than on the earlier, standing-order market.

Price instability or disequilibrium was the normal tendency in the southern California floral markets. Supply pressures and lack of uniform grades directed competition to price. The emphasis here is mainly on how wholesalers attempted to maintain stable prices in view of irregular demand and supplies that rose or fell with prices.

Price Stability

Influence of the Los Angeles market.--A major purpose of the market was to establish prices for the commodities traded there, especially for cut flowers and greens. The market in 1956 was not an open-price auction market; it was a dual market in which many selling prices were publicly known but many other selling prices were negotiated individually between sellers and buyers, especially on the late-morning inspection market. Buyers and sellers had to trade on the market in person in order to understand the complex price-making process. Late in 1957 the Southern California Floral Association began issuing the Los Angeles Wholesale Flower Report, a weekly market report for the benefit of distant grower-and-buyer members, giving prevailing supply-demand conditions and price ranges for the major commodities.

Two examples may illustrate the widespread influence of the market. Shippers on the Los Angeles market, who went to work earlier in the day, contacted eastern buyers sooner than outlying shippers did. When the latter called the eastern buyers they found that shipping prices for competitive commodities had already been set for the day by the market shippers. Again, although roses were grown in abundance in the Los Angeles area, a large quantity of roses, in response to favorable prices, flowed into the market from the San Francisco area (12).

Price leaders.--The trade recognized many of the large commodity specialists as price leaders for their commodities. Generally, price leaders established the grading standards and the price for each grade. The price for the dominant grade became the "market" price about which other prices oscillated. The "market" price remained steady for perhaps 3 months or more. When prices did change, they changed in units of 25 or 50 cents per 100 flowers, per bundle, or per flower (for orchids). The infrequent but sharp price changes reflect the power and stabilizing influence of the price leadership.

The most uniform and stable prices were those of greens. All four greens wholesalers sold essentially the same commodities, in both type and quality, and the prices charged buyers were identical or nearly so. Competition was based mainly on differentiated personal services and floral accessories. Prices to jobbers (routemen and other wholesalers) were 15 to 20 percent below the prices charged retailers. Greens wholesalers charged the retailers the same prices on the routes as on the market. Most of the wholesalers of greens expressed a desire to terminate route sales but seemed unable to do so because of custom and competition.

Fairly stable prices also prevailed for potted plants. The leading producers published price lists which were used as pricing guides by the smaller firms. Jobbers were granted discounts of 20 to 25 percent, and brokers 10 to 15 percent below the published prices.

Less price leadership prevailed among large cut-flower wholesalers than among potted-plant wholesalers. Nevertheless, there was considerable price stability for the more durable and less seasonal crops such as roses, orchids, carnations, gladiolus, and chrysanthemums. Generally, the asking prices among large producers or wholesalers were fairly similar, allowing for commodity variations. The increase in size of cut-flower firms has increased price stability, too.

Other factors contributing to price stability.--Wholesalers operating under different competitive conditions were able to employ various devices, other than supply controls, to stabilize prices. Nonprice competition, average cost-pricing, territorial rights, and storage were employed to establish and maintain prices.

Cut-flower shippers, for example, mailed out price lists, which were subject to change, but which they tried to maintain for a given season. Quality packs, brand names, trading stamps, special services, and discounts were employed to hold their customers and prices.

Many firms computed their costs (usually average costs) to determine selling or minimum prices. Cut-flower routemen, generally operating in exclusive territories with no competition from other routemen, found that their truck capacity placed an upper limit on their volume of business. All costs, including their own salaries, became fixed costs, for each trip. At a given volume, the average cost could be computed for hauling a bunch of stock or a dozen gladiolus. This cost became the minimum selling price to which a markup was added.

To maximize the profit of each trip, cut-flower routemen had two choices: (1) To increase volume so as to reduce marginal costs, or (2) to haul commodities yielding a high margin. Because of the limited number of florists they could serve, and the fact that demand for cut flowers was not much affected by price changes, they had more control over the type and quality of products hauled than over the physical volume of sales. Consequently, routemen were able to maintain selling prices which were more uniform than the prices they paid.

Most routemen generally charged the most distant buyer the same price as the nearest buyer. Some used regional price schedules in which distant buyers paid more, depending on the distance involved, the competition, and the volume of business of the buyer. Potted-plant routemen, in spite of considerable competition among themselves, seemed to maintain fairly stable selling prices because of the stability of growers' prices. A mild price-war erupted, however, in 1957, for $2\frac{1}{4}$-inch pots of Philodendron cordatum. Potted-plant growers and wholesalers were urged to agree voluntarily to a wholesale price of 15 cents each (4).

Most of the large grower-wholesalers and commission and merchant wholesalers operated on a minimum price plan. For example, if the market price did not cover their harvesting and transporting costs, some growers would not harvest. Shippers who knew their costs generally would not sell at a price that was below their average cost of purchasing and packing the commodities.

Merchant wholesalers, who bought outright, usually maintained prices longer than commission wholesalers selling on consignment. Prices on standing orders were higher and fluctuated less than over-the-counter prices. Wholesalers with refrigerating units could maintain prices longer than those without such facilities.

Price Variations

Some of the more important factors contributing to price variations were the perishable and seasonal nature of some commodities, the existence of many small producers wholesaling their own commodities, and the number of buyers and sellers.

Most small producers did not come to market every market day and thus were not fully aware of prevailing prices. Since they were not steady suppliers, few had standing orders to fill. Most of their sales were over-the-counter where prices were determined by bargaining. The longer they held unsold merchandise the more their bargaining position and prices diminished. Most growers operated on the theory that anything produced could be sold at some price. If they did not employ hired labor, they were not particularly concerned about the need to recover their costs of harvesting or marketing. This type of grower-wholesaler tended to depress market prices.

Most wholesalers knew that shippers and routemen wanted top-quality commodities and that retail florists placed standing orders to be protected on quality and quantity. These buyers paid the highest prices. The bucket-shop florists, peddlers, and cemetery florists usually purchased the lower-quality commodities at bargain prices. One buyer might purchase as much as a full handtruck of one commodity.

The type and strength of demand had a bearing on pricing practices, too. Experienced growers and wholesalers could feel the intensity of demand by the number of phone calls received prior to market days and by the degree of activity of buyers on the early-morning market. When supplies were scarce, as in winter and spring, shippers and routemen drove to the farms to be assured of supplies, and retail florists phoned in orders the night before. Bucket-shop operators and others, who usually purchased the market surpluses, were

on the market early placing cash orders; when supplies were plentiful they were the last to come on the market and appeared to be hard up for cash. In a short-supply, strong-demand market, prices tended to rise above those on the last market day and above those of the price leader. When supplies were plentiful, as was more frequent, most prices stayed below those of the price leaders.

Only an experienced and regular buyer could capitalize on the price variations which existed in every market period. For this and other reasons, many retail florists relied on routemen and experienced merchant wholesalers to do their buying on the market. Buyers would learn the prices of the leaders first and then proceed to search for price bargains. They thrived on an imperfect and divided market. Price discrimination occurred on both buying and selling sides--sellers tended to divide buyers into separate markets and the buyers tended to deal with sellers separately (25).

Price Risks

In view of the relatively inelastic consumer demand for floral products, it might be assumed that price increases could be easily passed on from dealer to dealer and finally to consumers. However, the possibility of such action diminishes at each lower level of trading (31, 24).

Most of the price risks were borne by growers, especially the smaller cut-flower growers, for many reasons: (1) Buyers had a stronger bargaining position than growers because demand was more inflexible than supply and most growers were small, unorganized, and not well informed of market conditions; (2) commodity substitution by buyers was a constant threat to growers and wholesalers of specialized commodities; (3) growers counteracted the pressure of lower prices on their incomes by increasing their production, which tended to depress prices (18); and (4) a price increase, especially for seasonal and labor-intensive items, tended to bring forth an increased supply in the next production period.

Commission and merchant wholesalers, routemen, and shippers were not as vulnerable to price pressures as growers because there were fewer of them, many handled a diversity of products, most offered differentiated services, and standing orders acted as a buffer against abnormal buyer pressures. Also, increases in the efficiency of wholesaling had not kept pace with those in the production of floral products. If efficiency is not increased, lower selling prices are not likely to be attained.

WHOLESALING SERVICES

As floral commodities move from grower to wholesaler to retailer, several specialized marketing services are performed: Standardizing, handling, transporting, and storing, in this order.

Standardizing

For many agricultural commodities trading units are standardized later in the marketing sequence than for floral crops in southern California. Much of the sorting, grading, and bunching of cut flowers in 1956 took place in the

field at the time of harvest rather than at the wholesalers' premises. The trading and grading system employed in southern California for the major cut flowers was based on standard units agreed upon by the trade.

Standard trading units.--To facilitate buying, selling, and pricing of large quantities of flowers an effort has been made to standardize trading units used by wholesalers as follows:

Commodity	Trading unit
Asters	25 stems per bunch, 4 bunches per bundle
Birds of Paradise	12 stems per bunch
Carnations	25 stems per bunch
Chrysanthemums:	
Pompons	25 stems per bunch, 4 bunches per bundle
Standard	12 stems per bunch
Daisies	25 stems per bunch, 4 bunches per bundle
Gladiolus	12 stems per bunch
Orchids	single flower or single spray
Roses	25 stems per bunch
Stock	12 stems per bunch, 4 bunches per bundle

Small flowers were bunched in the field at the time of cutting. Because of the industry's inability to enforce its standards, bunches frequently varied in number and size. In time of scarcity the number of stems per bunch or bundle diminished while the quoted prices remained the same. On the other hand, in times of plenty, the growers added extra stems. Most buyers seldom took time to count the individual stems in a bunch or bundle. This variation in bunch or bundle size led to many buyer-seller controversies.

Potted foliage-and-flowering plants were sold by pot size; 2-, 4-, and 6-inch pots were most common. Greens were generally bought by bales and sold by the dozen, or by a bunch of 25 stems. Dried materials were sold in pieces, bunches, or packs, depending on the commodity.

Sorting and grading.--All of the floral commodities were sold by grade, too. There were no mandatory grades. However, each seller established his own grades which often varied from season to season.

Five basic factors determined grades: Size, color, straightness of stem, flower defects, and age. Among these criteria, size was perhaps the most easily measured for all commodities marketed in southern California. Many of the flowers, such as roses, orchids, and daisies, were produced in many varieties, and each variety was graded by different standards.

Unsold flowers which had been refrigerated, such as roses, orchids, and carnations, were considered aged flowers and were lowered in grade and price. Orchid wholesalers generally regraded refrigerated flowers daily. As might be expected, more time was spent grading and regrading high-value flowers than low-value flowers such as asters, daisies, pompons, and stock.

Potted plants were graded chiefly by the appearance of the plant. Rigid grading was not attempted for the many small plants that were mass marketed. Greens were graded mainly by size, and appearance of the foliage.

Floral wholesaling in southern California in 1956 depended largely on the integrity of the supplier. Without enforceable industry-wide quality-control standards, trading tended to be limited to personal contacts and trust. Whether the industry can establish and enforce its own grades is problematical.

Local buyers protected themselves by inspecting their over-the-counter purchases or by placing standing orders with reliable suppliers. Shippers and routemen, too, relied on personal inspection. But when large quantities were purchased hurriedly in the early morning hours, many defects were overlooked in the buying process. Limited time and space necessitated a rapid flow of products through the shippers' premises and regrading was considered impractical. However, two of the cut-flower shippers interviewed in the survey purchased according to their own grades rather than by growers' grades at the packinghouse.

Handling

Several factors determined the ease and frequency of loading and unloading cut flowers between harvest and sale to retailers at the market: (1) The size of the trading units employed, (2) the number of market days, (3) the reliability of a grower's grades, and (4) the necessity of maintaining quality.

Cut flowers were generally placed in cans or troughs of water (vials for orchids) on the grower's premises shortly after harvesting. In some cases, the cans of water were already on the trucks used for hauling the flowers to market. The trade in general believed that most flowers should be hardened in water for 2 to 4 hours after harvesting before further handling.

After hardening, the larger and higher-priced flowers (such as carnations, gladiolus, birds of paradise, standard chrysanthemums, and roses) were sorted, graded, and tied before shipping to market. Carnations, roses, and birds of paradise were generally refrigerated out of water until loaded for market. The others were returned to water in the packing shed. Flowers might be held for a few hours to 3 days awaiting movement to market.

Cut flowers were transported to market in a variety of containers--wooden troughs for roses; cans for gladiolus, stock, and chrysanthemums; and boxes for carnations and orchids. Lower-priced flowers were generally stacked horizontally on the bed or shelves of a truck.

Loading and unloading the flowers, especially when in heavy cans of water, required considerable time and heavy manual labor. At the market, most growers employed transient laborers for unloading and paid them by the job on a varying scale. The number of handlings on the market varied, but the diversity of the market, the lack of grades, and the large volume of interwholesaler sales suggest that most flowers were handled many times. The quality of these flowers was without a doubt affected adversely.

Shippers, who were especially concerned about quality, attempted to reduce the amount of handling by having the water-hardened commodities delivered directly from the grower's truck to the shipper's packing room. Others went to the farm for their purchases. This was the common practice of outlying shippers.

Potted plants were less likely to be damaged by handling. The number of handlings and the amount of labor required, however, was an economic problem in the potted-plant industry, too. Pots 4 inches in diameter and over generally required individual handling. Pots smaller than 4 inches were moved on trays of 24 pots or more. Flowering plants, particularly fragile ones such as lilies, required sleeves to protect the blooms in transit, and were handled individually.

Transporting

The quantity and size of trucks used by the different types of wholesalers correlated closely with their location and with the type and frequency of services performed (table 24).

Table 24.--Number of trucks with specified capacities used by floral wholesalers to transport their merchandise, 53 wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Wholesalers reporting		Capacity of trucks				Total trucks
	With truck	Without truck	Station wagon	1/2-3/4 ton	1-1½ ton	2 tons and over	
	Number	Number	Number	Number	Number	Number	Number
Cut-flower grower-wholesalers	17	1	3	7	14	2	26
Cut-flower commission wholesalers	2	3	2	1	---	---	3
Cut-flower shippers	5	---	---	5	8	1	14
Cut-flower merchant wholesalers	6	---	4	9	3	1	17
Cut-flower routemen	4	---	1	3	1	2	7
Greens-and-dried-materials merchant wholesalers	4	---	---	8	4	---	12
Potted-plant grower-wholesalers	8	---	1	6	15	2	24
Potted-plant routemen	3	---	---	---	11	3	14
Total	49	4	11	39	56	11	117

The normal trade practice in southern California in 1956 was for the growers, especially cut-flower growers, to deliver their merchandise to the market or assembly point. Because of the 3-day market, growers needed larger trucks than if deliveries were more frequent. Growers as far away as Santa Barbara brought their crops to the Los Angeles flower market. Most of the San Diego merchandise was hauled to market by a trucking firm whose standard charge was 50 cents per 5-gallon can. Potted-plant grower-wholesalers needed a large number of trucks because most operated either a truck route or local delivery service, or both.

Wholesaling specialists on the Los Angeles flower market operated few trucks since their needs were restricted to only occasional pickups and deliveries. Outlying cut-flower shippers and potted-plant routemen, however, performed both pickup and delivery services. Consequently, they used more and larger trucks per firm than the other wholesalers did. Most cut-flower routemen operated only one truck on a route but had extra units (generally obsolete) and trailers on hand for use during emergencies or holidays.

At the Los Angeles market, small (about 3 by 6 feet) handtrucks were available to growers, wholesalers, and retailers for hauling floral commodities between stalls and stores and the parking lots (fig. 8). During the three market mornings every week, the Los Angeles flower market was a congested mass of cars, trucks, and people.

Storing

Dry storage, bucket storage, and refrigerated storage were used by the floral industry in 1956.

Dry storage, on shelf, bench, or floor space, was used primarily by potted-plant wholesalers, dried-material wholesalers, and those selling the more durable cut flowers.

Most bucket, can, or trough storage took place at the farm. However, shippers needed considerable floor space for bucket storage of cut flowers, especially at the peak of a shipping period.

Refrigerated storage was used mainly by Los Angeles wholesalers for orchids, roses, carnations, gladiolus, birds of paradise, and standard chrysanthemums. Less than half of the cut-flower grower-wholesalers owned or used refrigerated storage (table 25). All cut-flower routemen in the survey reported using refrigerated route trucks. Potted-plant wholesalers had no refrigerating units; some used insulated trucks, however.

Cut-flower shippers had, on the average, the largest refrigerated storage capacity. Most had at least two boxes--each at different temperatures. Cut-flower merchant wholesalers had the largest number of refrigerated storage units. Most of these wholesalers were shippers on the Los Angeles market, sold on commission at a location separate from their shipping operations, and handled a variety of commodities, some of which required different storage temperatures.

Table 25.--Number of units and total capacities of refrigerated storage space used at various locations, 23 floral wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Wholesalers having refrigerated storage	Refrigerating units in use	Refrigerated storage: At farm		At wholesale market		At assembly point		Average size per user
			Units	Total size	Units	Total size	Units	Total size	
	No.	No.	No.	Cu. ft.	No.	Cu. ft.	No.	Cu. ft.	Cu. ft.
Cut-flower grower-wholesalers	7	14	11	16,654	3	3,872	---	---	2,932
Cut-flower commission wholesalers	5	8	1	560	7	7,580	---	---	1,628
Cut-flower shippers ..	3	7	---	---	---	---	7	18,681	6,227
Cut-flower merchant wholesalers	5	13	---	---	13	29,800	---	---	5,960
Greens-and-dried-materials merchant wholesalers	3	3	---	---	3	7,336	---	---	2,445

Most cut-flower routemen used a refrigerated truck and a refrigerated unit located somewhere along their routes for the storage of unsold merchandise (fig. 10). Some owned or leased refrigerated space in San Bernardino, Bakersfield, and Fresno for storage and for making occasional sales to retail florists from a central source of supply. Other routemen used a retail florist's refrigerator for storage.

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Figure 10.--Cut-flower routeman and refrigerated truck.

Special Services for Buyers

Merchant wholesalers, routemen, and shippers performed special or limited services for wholesale or retail buyers in southern California. These services usually involved packing, packaging, delivery, and absorbing certain market risks such as transportation claims and refunds on sales.

Special services on the Los Angeles market.--Nearly all wholesalers on the market supplied packing and packaging services. Cut-flowers sold to retail florists were generally wrapped in newspapers; roses and orchids were wrapped or packed in parchment paper. Standing-order sales were wrapped and tied before the market gates opened; over-the-counter sales were wrapped at the time of sale. Ordinarily, the retail florist picked up and loaded the commodities he had purchased. Deliveries from the market to buyers were infrequent in Los Angeles, although common in San Diego. Within both markets, however, the seller usually delivered to the buyer's car or truck.

Special services of merchant buyers.--The limited-service, full-line wholesalers, called "merchant buyers" in this report, functioned mainly as buying specialists. They purchased floral commodities (chiefly on the market) for nearby retail florists, who then picked up the merchandise at their convenience. The merchant buyer usually bought for cash to obtain the best price and quality, and bore the financial risk between the time of purchase and the time of sale to the retailer. Merchant wholesalers, shippers, and consignment sellers occasionally acted as merchant buyers also. In 1956 the number of merchant buyers on the market was increasing.

Special services of routemen.--Greens, cut-flower, and potted-plant routemen operated in southern California in 1956.

The greens routemen operated out of the Los Angeles market. The number of routes serviced by the 3 greens routemen questioned in this study ranged from 2 to 6; the average number of customers per route was 30. Some routes were serviced a minimum of three times a week but more than half were serviced daily. The average round-trip distance traveled was 50 miles per route; and the average time on each route was 7 hours. Some greens routemen also sold flowers. In many instances, more than one greens routeman served the same customer.

Two types of cut-flower routemen--more than 30 in number--operated from the Los Angeles market: The short-distance routemen, and the long-distance routemen. The short-distance routemen covered mainly circular routes within metropolitan Los Angeles. In some cases, route selling was part of a merchant wholesaling operation and was often combined with deliveries. The largest metropolitan cut-flower routeman operated six refrigerated walk-in trucks. Several orchid growers operated routes in the metropolitan area from their growing ranges. Metropolitan retail florists were served by many different cut-flower routemen.

The long-distance routemen served chiefly retail florists outside the Los Angeles metropolitan area. They served an average of 18 florists on a somewhat linear route, 3 times a week; drove 350 miles per round trip, and spent 16 hours on each trip. Most had little or no competition from other routemen

primarily because each was operating at about full capacity and thus could not take on many new customers. A competitor could not operate economically without a full quota of customers. In central California, Los Angeles routemen encountered competition at Bakersfield and northward from routemen operating out of the San Francisco flower market. Some competing routemen from San Francisco also purchased on the Los Angeles flower market. Likewise, some of the Los Angeles routemen purchased on the San Francisco market.

Of the 11 potted-plant wholesalers in the study, 6 operated regular routes. Three of these specialized in route selling. Potted-plant routemen operated three types of routes: (1) Metropolitan Los Angeles routes on which they served retail florists, retail nurseries, and plant growers; (2) metropolitan routes on which they supplied retail merchandisers; and (3) long-distance routes on which both types of outlets were served. Five of the six routemen operated the first type of route; four serviced the second type; and three supplied the last type of route.

Potted-plant routemen, unlike cut-flower routemen, were on the road daily. The total number of routes per firm varied from 4 to 42; most routes were covered once weekly; the average daily time on the road per truck salesman was 8 hours. The total number of employees used in operating the routes ranged from 1 to 19. Five of the six firms were either partnerships or corporations--potted-plant routing was not a one-man operation.

The potted-plant routemen servicing metropolitan retail florists and nurseries averaged 25 customers per route. The routemen servicing retail merchandising outlets averaged only seven stores per route. The truck salesmen set up the display and serviced it on a guaranteed sale basis. The store was charged for the plants left and given credit for those removed. Employees of routemen servicing supermarket displays were required to join the local retail-clerks union. This was the only case encountered in this study of the employment of unionized labor.

The routemen selling in distant cities such as Fresno, San Luis Obispo, San Diego, Phoenix, and Las Vegas made 30 stops per day, but usually took 2 days to make the round trip. Most of the buyers on these routes made their selections from the truck.

Special services of shippers.--Shippers operating on and off the Los Angeles market performed basically the same services for their clients. Buyers, generally, took title to the merchandise f.o.b. at the shipping dock and paid for pickup and delivery as well as for the long-haul freight charge. One shipper interviewed consigned his orders to a delivery agent in the city of destination and prepaid the freight in order to get lower rates for bulk shipments. The freight bill was then prorated to each buyer's invoice.

In 1956, the major shippers on the Los Angeles market cooperated in the consolidation of truck shipments to the Texas area and air-freight shipments to the northeastern part of the United States. A drayage firm transported the shipments to the airport at a charge to the buyer of 60 cents per box. Twenty cents of this charge was returned to the consolidating group to defray its operating expenses. The truck shipments to Texas were picked up at the market. Outlying shippers had their shipments picked up by air-freight carriers or

delivered their own shipments to the airport. No direct charge was made to the buyer for this delivery service.

Some consignment shipments were made in 1956, more by newer firms attempting to become established than by the older firms. Most shippers gave buyers credit for defective merchandise, unless the defect was the fault of the transportation companies. Adjustments for defective merchandise often were large, and the transaction amounted to consignment selling.

The standard practice among shippers was to assess the buyer a packing charge to cover the cost of the box and all or part of the packing-labor cost. The charge, however, was not uniform among shippers--it ranged from 75 cents to $2 per box, with $1.50 per box as the median charge.

The method of transportation used by shippers depended on the buyer's preference, since he paid the freight costs, and on competition. The proportions shipped by air, rail, and truck are shown in table 26. The percentage of air shipments increased during the peak shipping season in the spring and declined during the summer and fall. Rail formerly was the most important method of shipment, until air freight opened up the entire United States as a market for California-grown flowers.

Table 26.--Out-of-State shipments of floral products by air, rail, and truck: Percentage shipped by each method, by shippers on and off the Los Angeles flower market, southern California, 1956

Method of transportation	Total out-of-State shipments	Out-of-State shipments by--	
		Shippers on the Los Angeles market	Shippers off the Los Angeles market
	Percent	Percent	Percent
Air	68	25	75
Rail	17	30	15
Truck	15	45	10
Total	100	100	100

Shipping was a business of extreme peaks. The Easter-to-Memorial-Day season was especially busy for shippers. Monday and Wednesday were the two heaviest shipping days. The peak packing hours were from 6 a.m. to noon. A major problem of shippers in 1956 was to obtain good, conscientious packers and to maintain their interest and proficiency while they were working at other jobs during the off hours, days, and seasons. The care a packer showed in handling, grading, and packing flowers was reflected in the quality of the flowers received by the buyer.

Communications Between Wholesalers and the Trade

One of the responsibilities of professional wholesalers is to provide market information to growers and buyers. Several methods of communications among trade members were used in southern California in 1956, including personal contacts, group meetings, mailing pieces, design schools, promotion campaigns, and trade publications.

Communications with growers.--Growers obtained market information by personal contacts with other growers, other wholesalers, and retailers.

The increasing group of growers who did not sell on the market had to rely on weekly settlement reports from market wholesalers, frequent phone conversations with their sellers, and occasional trips to the market, to keep abreast of market developments. Growers in the San Diego and Santa Barbara areas requested daily market reports by radio so that they might better gage their growing and harvesting operations. The Southern California Floral Association responded to the pressure of distant sellers and buyers and in 1957 began issuing a weekly printed report of market conditions and prices to its members.

The need for improved communications between market wholesalers and distant growers was evident by the volume of flowers dumped, usually after a downturn in market demand when supplies became excessive. For example, six handtrucks piled high with gladiolus were dumped one market day in early June 1956 by commission wholesalers. It cost between $100 and $125 to transport the flowers from San Diego to Los Angeles and $18 to dump them. These costs were in addition to other out-of-pocket marketing costs incurred in harvesting, grading, and so forth. In preference to dumping, an oversupplied commission wholesaler often quoted bargain prices to other wholesalers to clear his refrigerated storage space. In either case, depressed prices resulted.

Since growers usually were paid weekly, some time elapsed before they realized that the market was oversupplied. Also, many would not accept a wholesaler's word about market conditions. Some feared that if they withheld supplies others would make the sales. In contrast, heavy dumpage was uncommon among grower-wholesalers. Since they brought their own merchandise to the market for sale, they could better adjust supplies to market demand and would sell their available supplies sometimes at bargain prices.

Cut-flower and potted-plant growers held periodic meetings at which they discussed better production techniques. These occasional meetings seldom gave attention to providing growers with better marketing information.

Communications with buyers.--Retail florists who came to the Los Angeles flower market to buy also gave and received market information in their contacts with wholesalers. Many retail florists, however, and other buyers such as retailers handling foliage plants, seldom came to the market. Out-of-State buyers communicated purchase orders through their buyer-representatives.

Shippers who sold to buyers outside of southern California resorted to more formal communications than other wholesalers did. The two principal methods used by shippers were the telephone and periodical price lists and sales notices. Some shippers mailed regular newsletters. Most shippers,

however, found it advantageous to pay personal visits at least once a year to their important out-of-State buyers.

One reason potted-foliage-plant grower-wholesalers operated their own truck routes was to obtain a better "feel" of their market. Since they sold only a small amount on the Los Angeles market (unlike the flowering-plant group) they were deprived of one of its chief advantages.

The routemen reported that an important function of their business was to transmit market information between their suppliers and buyers. Distant retail florists relied on cut-flower routemen for information about market conditions and the availability of seasonal or new products. These retail florists came to the market infrequently but often enough to know whether the information they received from routemen was reliable. Market wholesalers accused routemen in general of being lax in bringing new items to the attention of their retail customers.

Market wholesalers attempted through floral design schools to keep their retail customers informed about new products and new techniques. Otherwise, local sales promotions were carried on chiefly by individual firms. Most promotion campaigns--dinners, gifts of calendars or pen sets, and so forth--were designed to cement established loyalties. A bold or forthright campaign by a wholesaler to attract customers from other wholesalers would be considered unethical by the trade. Any firm on the Los Angeles market which violated this unwritten law might find its sources of supply committed to other buyers.

Communications with consumers.--Industry-wide sales promotion and advertising at the wholesale level in southern California was negligible in 1956. Numerous attempts to start a cooperative advertising program to which all trade members would contribute have failed. Most advertising of floral crops was for individual commodities.

Limited programs such as these are usually short-lived, in part because no workable and equitable system has been devised to finance this advertising. A nominal flat fee does not raise adequate funds; a high flat fee is inequitable. Many members of the industry considered a percentage of gross sales as the most equitable assessment but ineffective where no legalized means of enforcement existed. The California State Florist's Association was attempting to have a State marketing agreement (as authorized by the California Agricultural Marketing Act) applied to the industry. The agreement, if accepted by the industry, would require all growers and distributors of floral commodities in California to contribute a percentage of their sales to a common fund for promotion, advertising, and research.

WHOLESALING MARGINS AND COSTS

What did wholesalers earn for performing the various marketing services? Or, what did retailers and consumers pay wholesalers for performing these services?

Answers to these questions must be qualified in view of the limited margin and cost data obtained in the survey. Only 12 of the 54 wholesalers in the

survey provided data that were sufficiently accurate to be useful. Twenty other firms provided margin and cost data of varying degrees of reliability. Consequently, the margin and cost data reported herein--by type of wholesaler and type of operating expense--are estimated averages for the participating firms.

The survey sought two marketing margins: the gross margin and the net margin (gross profit and net profit). To obtain net margins, operating expenses were subtracted from gross margins. Since figures on operating expenses were often incomplete, many more gross margins were obtained than net margins.

Gross Margins

Among cut-flower grower-wholesalers the gross margin averaged 16 percent of gross sales and ranged from 10 percent for the largest wholesalers to nearly 25 percent for the smallest in the group. 8/

The gross margin of cut-flower grower-wholesalers appeared low because these wholesalers reported a value on their services as salesmen in the market which was less than the going rate or did not report enough of their time as spent in marketing. On the other hand, grower-wholesalers maintained that their costs of selling through other wholesalers was greater than the commission or wholesaling rates shown in table 27. The standard commission rate on the Los Angeles market in 1956 was 20 percent of gross sales.

Table 27.--Estimated gross wholesale margin as percentage of sales, 22 floral wholesalers by type of wholesaler, southern California, 1956

Type of wholesaler	Wholesalers reporting	Estimated gross margin	
		Average 1/	Range
	Number	Percent	Percent
Cut-flower grower-wholesalers	7	16	10-25
Cut-flower commission wholesalers	3	21	20-22
Cut-flower-and-greens merchant wholesalers	6	23	19-31
Cut-flower routemen	3	26	20-29
Potted-flowering-plant grower-wholesalers	3	21	18-22

1/ Averages for all of the firms in each group were weighted by the value of wholesale sales.

8/ The gross margins for this group were obtained by adding the wholesaling costs reported by each grower-wholesaler. (Ordinarily, gross margins are derived by subtracting the cost of goods bought or produced from total gross sales.)

Cut-flower and greens merchant wholesalers obtained a higher average margin than commission wholesalers. This was because: (1) They provide more marketing services, including shipping and routing; (2) many of the cut-flower merchant wholesalers were buyers for retail florists who paid a premium price for this service; and (3) many merchant wholesalers were cash buyers who were able to purchase at lower prices and to sell at the going market price.

Cut-flower routemen, too, provided delivery and risk-bearing services to retail florists that grower-wholesalers or commission wholesalers did not provide. Also, by buying large volumes for cash they were able to obtain quantity discounts. Most attempted to work on a 25 percent markup on sales.

The potted-flowering-plant grower-wholesalers reported higher wholesaling costs (21 percent) than the cut-flower grower-wholesalers (16 percent), primarily because they devoted more labor and time to selling, and because their transportation, rent, and occupancy costs were higher.

No usable wholesaling margin and cost data were obtained from potted-foliage-plant grower-wholesalers. Four firms reported gross margins averaging 35 percent of gross sales which covered all costs for producing and wholesaling.

All of the cut-flower shippers reported that they tried for a markup of 33 percent on selling price. (Only two, however, provided complete and useful data.) Potted-plant routemen tried for the same percentage. Both of these types of wholesalers provided many more services, such as costly pickup and delivery, credit, and special handling, than other wholesalers did.

The gross margin for all wholesale sales in 1956 was estimated to average 25 percent. Multiplying this by the total estimated wholesale sales in southern California of $18,250,000, we arrive at a total floral wholesaling bill of $4,562,500 for 1956. This is the amount wholesalers received above the cost of goods sold. Out of this amount they paid labor, transportation, salaries, and other expenses incurred in wholesaling. A little was left over as net profit.

Net Margins

Two types of net margins (net profits) were reported by the firms presenting useful wholesaling cost data. One type was the amount left from the gross margin after all operating expenses, including salaries, were deducted. In essence, this was basically a return on the firm's investment. The second type (reported mainly by proprietorships, and considerably higher than the first type) was essentially the wages of management. When this kind of net margin was given, salaries for management were not included in operating expenses.

Ten firms, mainly cut-flower commission men and merchant wholesalers, reported the first type of net margin (return on investment only). The net return ranged from a loss of 6 percent to a profit of 29 percent on 1956 gross sales. Three firms showed net losses and seven firms showed net gains. The median net margin was about 2 percent, which is low compared with alternative investment opportunities.

Nine firms reported the second type of net margin (mainly wages of management) which ranged from 6.4 percent to 26 percent. The median net margin was nearly 10 percent of 1956 gross sales.

Operating Expenses

The relative importance of the different types of operating expenses is reported in table 28. These data were selected on the basis of reliability for each type of expenditure. Under selling and administrative expenses, for example, no data from cut-flower grower-wholesalers were included because the valuations assigned to their services in wholesaling were questionable.

Table 28.--Floral wholesalers' operating expenses as percentage of gross sales, by type of expense, southern California, 1956

Type of operating expense	Wholesalers reporting	Proportion of gross sales	
		Range	Median
	Number	Percent	Percent
Labor (handling, storing, packing, and selling)	20	0.6-15.3	5.0
Materials (handling, storing, packing, and: packaging)	23	0.1- 4.3	.5
Transportation	28	.0- 9.3	2.5
Selling (telephone, travel, commissions, and entertainment)	16	.3- 7.5	1.8
Advertising and promotion	22	.0- 1.6	.2
Administrative and office (includes salary: to management)	21	4.0-16.3	9.5
Rent and occupancy	25	.7- 3.5	2.5
Other	25	.1- 5.2	.8
Total	---	---	22.8

The median for all expenses was 22.8 percent of gross sales. The difference between this and the estimated average gross marketing margin of 25 percent for the wholesaling industry in southern California was the net profit of about 2 percent.

In general, the data for the other types of expenses showed that (a) the more services performed the higher the expense, and (b) the smaller the firm the greater the expense.

Efficiency of Floral Wholesaling

The efficiency of wholesaling floral products could not be determined easily from the data obtained in this study. However, when comparisons are made with data from studies in other markets it appears that the efficiency of wholesaling floral products in southern California might be improved. Comparisons with other markets were made on the basis of comparative sales and costs and in the use of market resources.

Comparative sales and costs.--Moore reported sales and cost data obtained from 13 Chicago and 44 New York City floral wholesalers in 1955 (22). Total wholesale sales amounted to $8 million in Chicago and $17 million in New York City. Los Angeles flower market sales were comparable--approximating $10 million in 1956. The average gross sales per firm were $727,000 in Chicago and $387,000 in New York City, 9/ in contrast to $148,000 for the 54 wholesalers in southern California who were included in this study.

The average wholesaling costs for the 13 Chicago firms were 18.09 percent of gross sales. Firms with annual sales under $200,000 reported average costs of 20.2 percent; firms with sales over $400,000 had average costs of 17.2 percent of gross sales. Average wholesaling costs for the 44 New York City floral wholesalers were: 17.55 percent of gross sales for all firms; 19 percent for firms with annual sales under $200,000; and 17.9 percent for firms with sales over $400,000. The wholesaling costs did not include net profit. In this respect they were comparable to the 22.8 percent reported for Los Angeles wholesalers.

Based on the available data it would be unwise to draw conclusions with respect to the relative efficiencies of wholesaling on the three markets. Wholesaling conditions and practices differed considerably on these markets.

The chief significance of these data is that the large wholesalers in each market reported lower costs as a percentage of gross sales than smaller firms. There is reason to believe that, up to a certain point, floral wholesalers operate at decreasing unit costs as their sales increase. If this hypothesis holds, one might assume that wholesaling costs in southern California could be lowered if the many small, limited-line, limited-service wholesalers were replaced by fewer, larger, and more nearly full-line, full-service firms. From all indications, the business is slowly evolving in that direction (see tables 7 and 8).

One of the costliest wholesaling problems on the Los Angeles market was the excessive handling of products, largely due to the many interwholesaler sales. (Such sales amounted to nearly 20 percent on the Los Angeles market in contrast to 4.8 percent in Chicago and 8.3 percent of gross sales in New York City.) Products receive more handling in the present dual market than they received when most of the purchases were made by over-the-counter inspection from grower-wholesalers. This suggests that the present system of fewer limited-line, limited-function wholesalers is but a transition stage leading to the concentration of the business in still fewer but larger full-line, full-service wholesalers.

9/ E. J. Moore. Letter to E. L. Rada. Sept. 5, 1957.

Use of resources.--A noticeable imbalance existed in the use of labor and space on the Los Angeles market in 1956, largely because the market was attempting to accommodate the needs of two groups trying to do two widely-separated jobs: Growers, producing and wholesaling; and retail florists, buying and retailing. As a consequence, short periods of frenzied activity and intensive use of space on the market were followed by longer periods of near inactivity and emptiness.

Many of the workers on the market held two jobs, one on the market and another off. Their take-home pay reflected the fact that their time was not fully employed on the market (24 to 32 hours was the usual workweek). On an hourly basis their pay was fairly high, however, since most were employed on a straight salary. The standard salary for market salesmen and packers was about $100 per week in 1956, plus a few "fringe" benefits. When temporary or part-time help was employed, the high hourly rates reflected the difficulty of obtaining competent help for the odd hours and conditions of work, rather than compensation for extra-high productivity.

The use of space was as irregular as the use of labor. Stall facilities designed for limited-line grower-wholesalers were no longer adequate for larger commission and merchant wholesalers. The increase in the volume moving through the market (mostly in such bulky commodities as stock, gladiolus, and chrysanthemums) overtaxed the space facilities during the peak flows. In such periods, flowers were left on trucks or temporarily stored in aisles and in others' stalls. Prices, particularly among commission wholesalers, were often lowered substantially to redistribute the merchandise within the market. Growers, too, needed larger transportation equipment than if they were to bring their merchandise to market daily.

Wholesalers operating off of the Los Angeles market used their labor and space more evenly than the market wholesalers. Shippers, for example, worked 6 and 7 days a week. Commodities were rarely held in the shipping rooms for more than 12 hours. Potted-foliage-plant wholesalers, too, marketed daily. Their operations were geared to marketing a steady flow of merchandise from greenhouse to buyer.

Inasmuch as labor and space are such important components of wholesaling costs, it seems reasonable that with a different marketing structure on the Los Angeles market these costs could be reduced per dollar of gross sales. Outwardly, however, no great pressures in favor of reorganizing and economizing seemed to be in motion. Prices paid by retailers and other buyers generally were adequate to cover existing wholesaling inefficiencies.

Information for only one year does not disclose the dynamic nature of southern California's floral wholesaling industry. There are competitive forces in the market which are bringing about major adjustments.

FLORAL WHOLESALING IN TRANSITION

Many competitive forces--external and internal--were at work altering market conditions, wholesaling practices, and institutional arrangements in the southern California floral industry in 1956. This chapter highlights the major adjustments wholesalers are making to the new market conditions and the more important implications arising from them. Changes in the location and size of retail florists and their buying practices were causing wholesalers and growers to adjust to the new situations.

Briefly, the external factors affecting the industry were: (1) An increasing demand for floral products for local consumption and export, largely due to a growing population; (2) increases in taxes and other costs of operation resulting from increasing urbanization; and (3) changing consumer preferences for floral products.

Internally, the significant competitive changes taking place--many as the effects of external changes--were: (1) The long-run decline in the number of cut-flower grower-wholesalers; (2) the increase in number and size of wholesaling specialists; (3) the decrease in number and increase in size of retail florists; (4) the increase in number and size of wholesale buying specialists; (5) the changing relationships between buyers and sellers on the Los Angeles flower market; (6) the increase in number and size of shippers off the Los Angeles market; and (7) the streamlined wholesaling of potted-foliage plants to nonflorist retailers.

Changes Among Sellers

The most conspicuous long-run trend among sellers was the decline in the number and importance of cut-flower grower-wholesalers, as was evident in the Southern California Flower Market and the American Floral Exchange in 1956. Paralleling this change was the rise in importance of commission and merchant wholesalers. Although grower-wholesalers were dominant numerically in 1956, commission and merchant wholesalers predominated in volume of sales.

Reasons for the decline in grower-wholesaling.--There are many reasons why grower-wholesalers have declined in number and relative importance in the market.

First, many growers have abandoned floral production near the Los Angeles flower market for such reasons as competition from other suppliers, taxes, zoning, high land values, and smog. Some have moved to outlying production areas and have found it no longer feasible or economical to wholesale their own merchandise in the market. Others have dropped out of the business.

Second, the philosophy of the old-timers, mostly the foreign-born, was to work long hours and to control their commodities as near to the ultimate consumer as possible. The scope of their operations was determined by the amount of family labor available. Many of these enterprises have not been perpetuated.

Third, many grower-wholesalers have finally had to make an economic choice between growing flowers or marketing them. As their firms grew in size, many individuals found it difficult to do both tasks effectively.

Fourth, grower-wholesalers, in general, faced certain obstacles in forming partnerships and corporations to ease their management, capital, and risk problems.

Fifth, retail florists were demanding a greater variety and reliability of products and services than most individual growers would or could provide in competition with wholesaling specialists. The growers' bargaining power was diminishing in relation to that of retail buyers.

Reasons for the continuance of grower-wholesaling.--The reasons why grower-wholesalers have continued to operate in southern California are considered under three topics: (1) Market facilities, (2) costs and returns, and (3) economic flexibility.

(1) Market facilities.

The closeness in time and space between the production and the consumption of the relatively perishable and unstandardized floral products favors the producer. Where there are no grades, personal knowledge of the product and personal integrity are important nonprice sales variables. The grower-wholesaler knows his merchandise and can match his knowledge of the product and the market against that of the buyer when sales are made by buyer inspection.

The layout, organization, regulations, and wholesaling practices on the Los Angeles flower market encouraged grower-wholesalers to come to the market. Together grower-wholesalers controlled enough merchandise (approximately 30 percent for the area in 1956) to attract buyers to the market on the three market mornings each week.

(2) Costs and returns.

Financially it was to the advantage of many grower-wholesalers to control their products through the wholesaling process. They incurred certain risks, such as decreases in the quality of the product and in the market price, but they received a higher return than if commission and merchant wholesalers marketed for them.

Wholesaling costs were not large for cut-flower grower-wholesalers. Their major noncash outlay was the time they devoted to selling. Most of the assembling costs--grading and sorting, loading and unloading, and transporting--would have to be incurred by the grower, according to prevailing practices, whether or not he wholesaled his own merchandise. Many grower-wholesalers, however, were willing to accept less for these services than if they or a wholesaling specialist had to hire labor to perform them. As many put it, "this is the price we pay for freedom!"

In many of its economic aspects, grower-wholesaling resembled subcontracting in the building industry. According to Maisel, many large building firms tried integrating the functions of subcontractors into one firm, but later returned to hiring subcontractors because this was more economical (19).

The basic question is: Could not cut-flower grower-wholesalers spend their time more profitably in growing or in another occupation than wholesaling? More profitable alternative opportunities outside the industry were scarce for many grower-wholesalers. Most growers were aware that added production would

tend to lower unit prices and average returns. Most seemed unaware that total sales were increasing at the rate of 8 percent per year--or nearly doubling in 12 years. Also, many failed to appreciate that by devoting more time to growing they could lower production costs and upgrade quality, which would mean improved net returns. The added income which greater production might bring was considered only a possibility, while the cash they saved by wholesaling what they produced was an immediate reality.

The lack of reliable, publicly disseminated market information kept many growers in the wholesaling business. One perhaps unintentional effect of the improved market reports, which were started in 1957 by the Southern California Floral Association, may be a further decrease in the number of growers and retail florists coming to market.

The same economic motives were applicable to the potted-plant grower-wholesalers, except that few foliage-plant growers did business on the Los Angeles market. The smaller plant growers welcomed the use of routemen as a cheaper method of marketing their merchandise, and one which allowed them to concentrate on growing. In other words, they had more incentive to remain producers than cut-flower growers had.

(3) Economic flexibility.

A major advantage of the small grower-wholesalers over larger wholesalers was their ability to adjust quickly to changed economic conditions--a greater market demand, excessive supplies, or an economic recession. Small grower-wholesalers did not have the problem of a fixed payroll, and a cut in prices or sales was absorbed in their family's level of living. In an inflationary period they were not faced with extra wage demands, although they tended to lag behind the larger wholesalers in growth of sales and productivity of labor. In any economic situation, they could prorate their labor over both selling and producing which, up to a certain firm size, was to their advantage. Many were able to form partnerships or small private corporations to obtain the advantages of labor specialization, added capital, and reduced personal economic risks.

This flexibility, in an industry so easily upset by excess supplies, is a built-in adjusting mechanism. The small grower-wholesaler's economic advantage was much more apparent in production than in wholesaling.

On the market, grower-wholesalers showed less flexibility. Group pressures tended to demand conformity in selling prices and marketing practices, which could not be fully realized because of buyers' changing demands.

Changes Among Buyers

Changes among retail florists.--In spite of the growth in population, personal incomes, and floral sales, retail florists, who were the major buyers on the Los Angeles flower market in 1956, were decreasing in number but increasing in size. Moreover, the number of retail buyers on the Los Angeles market declined more rapidly between 1950 and 1956 than the total number of retail florists in southern California (table 29). The chief reason for this was the sharp decrease in the number of retail florists within 10 miles of the

market, who because of their proximity and size exerted considerable influence on the market. Also, many of the florists 30 miles or more from the market were not members of the Association and technically were ineligible to buy in person on the market. For example, the January 1957 telephone directory listed nearly 60 retail florists in San Diego (124 miles from the market) while the Southern California Floral Association's 1957 directory listed only 4 San Diego retail florists as members.

Table 29.--Number of retail florists in southern California buying on the Los Angeles flower market, by distance of florists from the market, 1950 and 1956 1/

Miles from the market	1950	1956	Change, 1956 over 1950
	Number	Number	Percent
0-5	240	178	-26
5-10	321	288	-10
10-20	291	299	+ 3
20-30	55	66	+20
30-40	40	31	-23
40 or more	97	102	+ 5
Total or average	1,044	964	- 8

1/ These are the retail florists who were members of the Southern California Floral Association and were assigned buttons for purchasing on the Los Angeles flower market.

The 25- to 30-mile zone from the market appeared to be the area of trading indifference for many retail florists. Some beyond did not come in at all; others came in occasionally depending on demand-supply circumstances. The largest number of retail florists came to market on Friday to purchase for the long weekend.

Yet, wholesale sales were increasing; who was doing the florists' buying?

Increase in buying specialists.--A number of buying specialists have emerged on the market to meet the needs of florists. Shippers, the oldest, largest, and most numerous of the specialists, mainly served out-of-State buyers. Their increase in number and sales is shown in table 6. Cut-flower routemen chiefly served florists located 20 miles or more from the market but some were serving metropolitan florists, too. Greens routemen served mainly metropolitan florists while potted-plant routemen distributed mainly to non-florist outlets over all of southern California.

The number of merchant buyers on the market who specialize in buying mainly on order for nearby retail florists has increased. Many retail florists found it more economical to employ a buyer than to do their own buying. Why were these florists using the services of specialized buyers, often at premium prices?

The principal reasons were: (1) New florists were not familiar with market prices and sources of supply; (2) traffic congestion on the market and on the adjoining streets was too great; (3) they were buying more than before, and bargaining over price and quality was time-consuming and disagreeable; (4) they could not depend on grower-wholesalers, especially those selling seasonal commodities, to fill their standing orders and to provide the desired variety; (5) they often worked late at night and competing on the early market affected their daytime performance; to send an experienced employee to buy was unprofitable for the same reasons and also expensive; and (6) they preferred to have one responsible person or firm to whom they could look for service, credit, and handling of complaints.

The other market wholesalers provided buying services for retail florists too (which is one reason for the high percentage of interwholesaler sales) or set aside standing orders. From the retailers' point of view, however, these wholesalers were often too closely associated with the growers' interests.

Changes in the Market

The character of the wholesaling industry in 1956 was extremely varied, as might be expected in a period of transition. 10/ Wide variations prevailed in size and type of firms, kind of commodities handled, type of functions performed, types of competition, and location of sales. The changes taking place in the market reflected the relative strengths of the many different types of sellers and buyers competing for sales and supplies.

The inelastic nature of consumer demand--where large changes in retail prices cause relatively small changes in the quantities bought by consumers--would tend to favor the rise of wholesaling monopolists who would profit from lower sales at higher prices. The supply of floral products, however, was elastic--that is, small changes in prices to growers would bring forth greatly increased supplies--and in many hands which prevented a firm from gaining a monopolistic control over the market. Moreover, floral commodities were readily substitutable which prevented a commodity specialist (or a group of specialists) from achieving a monopoly position in the market. Furthermore, changing consumer incomes and tastes were altering the demand for specific commodities. Recent reports indicated that consumers were demanding longer-lasting floral products (17) and less ostentatious floral displays at funerals (5). Nonetheless, the trend was toward larger, full-line wholesalers who competed by means of quality and service rather than price for market outlets.

10/ In economic terminology, the market would be classified as an imperfect market, with most wholesalers operating under conditions of monopolistic competition (11). Some firms found themselves in an oligopoly leadership position while most viewed the market as one of pure competition among many buyers and sellers with prices equating their marginal costs. In Clark's classification most wholesalers would fall into categories B and C in Case II, which he titled "modified, intermediate or hybrid competition."

In terms of location, two separate but interrelated markets were in existence: The Los Angeles market and the outlying market. The activities of each influenced the other but the influence of the Los Angeles market predominated. In many ways competition was more intense off the Los Angeles market than on it.

Changes on the Los Angeles market.--The consequences of competition on the Los Angeles market are evident in the dual market and in the actions of the Southern California Floral Association.

(1) Dual market.

The evolution of the Los Angeles market from a single over-the-counter, buyer-inspection market to a dual market--an early morning and a late morning market, each catering to different buyers--reflects the increasing power of shippers, routemen, and merchant buyers and the relative decline in power of individual retail florists and grower-wholesalers. Local retail florists, to obtain top-quality merchandise, were forced to place standing orders or to employ merchant buyers. The late-morning market has remained essentially an over-the-counter market but in 1956 was patronized chiefly by peddlers, bucket-shop florists, cemetery florists, and others who came to the market to pick up their standing orders.

The single, person-to-person market favored grower-wholesalers in the price-making process; the dual market tends to give buyers the bargaining edge. The many small growers have turned to price leaders and group action for price protection.

Grower-wholesalers, in general, were resisting the increasing influence of cut-flower routemen because each routeman displaced 10 or more retail florists who formerly purchased on the market in person. Retail florists, it was reported, would buy "seconds" on speculation, if they obtained a good buy; while the routeman would take only standard first-quality merchandise. Furthermore, it was more difficult for the average grower-wholesaler to bargain with a routeman over prices because of his concentrated buying power. By resisting, grower-wholesalers were forcing the routemen to trade with commission and merchant wholesalers who welcomed the routemen's business.

The increasing number of standing orders on the early-morning market has many implications for the trade. First, standing orders suggest that purchase by personal inspection was no longer considered a necessity. Second, the failure of sellers to meet their standing order commitments would force retail florists to rely more on buying specialists. Third, the further concentration of buying might lead to the establishment of a buyers' cooperative (6, 10).

Delivery services to metropolitan retail florists are not likely to expand rapidly as long as the delivered price is higher than the pickup price (as it should be) since most retail florists have their own trucks. However, a large wholesaler might well use delivery as a competitive variable to acquire a larger share of the market. An increase in delivery (and routemen's services) might warrant the establishment of branches of full-line wholesaling firms in certain populated areas, as were found in San Diego and to a lesser degree in San Bernardino and Fresno. Decentralization of wholesaling in general is a definite trend in southern California and also in the floral business in the

United States (15, 21). An increase in decentralized wholesaling would have pronounced short-run effects on the Los Angeles market, which in 1956 was in the process of adjusting to lesser problems.

(2) Actions of the Southern California Floral Association.

Some of the recent actions of the Southern California Floral Association reflect the nature of the problems encountered in a dynamic market. The Association, the principal regulatory agency on the Los Angeles market, attempted to represent the interests of its retailer, wholesaler, and grower members. Some actions tended to favor grower-wholesalers in view of their ownership and control of market resources. Its chief contribution was to maintain a certain amount of stability or equilibrium within a changing market (11). The market regulations pertaining to hours and places of trading were a good illustration of the Association's efforts to preserve an orderly market.

The Association's difficulties in trying to serve all members equitably are illustrated by the dilemma of the market shippers. Late in 1955, market shippers petitioned the Association to delay market opening and delivery hours. They hoped to obtain more normal working hours for their employees, who were difficult to find and keep for early morning work. In exchange, the shippers promised not to buy and pack flowers for the early morning flights (1). The Association agreed, and for a short time marketing activities took place an hour later. A consequence of this delaying action was to divert more business to outlying shippers and to market shippers who were not parties to the agreement. The solution to the shippers' employment problem was not found in retarding the flow of highly perishable merchandise to retailers and consumers. On the other hand, the division of interests on the market seemed to forestall a satisfactory solution.

Retail florists, too, have evidenced some dissatisfaction with the Association's policies and their loss of power in it. In 1957 a large group of retailers formed a new retail florists' association outside the Southern California Floral Association for the purpose of restoring their power in the market through united action (2). If past trends continue, there is reason to believe that more retail florists will turn to the buying specialists to supply their needs and to protect their interest. In so doing, however, the retail florists will lose much of their individual personal influence in the market.

The attempts of the Association to maintain the status quo on the market encouraged new firms to provide the trade with needed services which the older firms would not provide. In general, older firms failed to take advantage of the new opportunities. The consequences of market policies were evident in the developments taking place off the Los Angeles market.

Changes off the Los Angeles market.--The rise of outlying cut-flower shippers and the potted-foliage-plant industry has been largely independent of the Los Angeles market. The growth of outlying shippers in relation to that of market shippers is shown in table 6. Outlying shippers worked closely with their suppliers and were free to ship daily. The commodities they shipped were handled more rapidly than similar commodities shipped from the market.

The rapid growth of outlying shippers encouraged production in outlying areas which in turn upset buyer-seller relationships on the Los Angeles market. New commission and merchant wholesalers began business on the Los Angeles market to handle the surpluses and "seconds" of outlying shippers and growers. The outlying growers and shippers in turn demanded more and better market information from the Southern California Floral Association. At the same time their business was increasing at the expense of market shippers. The grower-wholesalers who relied heavily on market shippers were forced to sell more to local retailers and routemen, which lowered their bargaining position and their returns. Some market shippers attempted to counter the competition by shipping from the production areas. However, most reported an increase in overhead costs without obtaining an offsetting increase in sales.

The evolution of the potted-foliage-plant industry offers a good illustration of the effects of a relatively free market and of volume selling on wholesaling practices. The rapid growth of the industry after World War II--much of it due to windfall advertising in national magazines--was largely independent of the Los Angeles market and retail florists. The industry passed quickly through many developmental phases of wholesaling and into streamlined methods--largely through routemen--that are still changing. Wholesaling margins were high enough to attract many new competitors. Competition among potted-plant routemen in services, quality, and prices was rather intense in 1956. The industry was showing signs of stabilizing, however. Margins were being reduced, new entrants were less common, and routemen-grower contractual relations were being formalized.

Keen competition among potted-plant routemen opened up new markets and selling methods never used in the cut-flower business. It is unlikely that the cut-flower industry can achieve the streamlined wholesaling techniques found in the potted-foliage-plant industry until it is able to solve its mass merchandising problems. The main problem for the industry is not production but consumption. Should a major increase occur in consumption, significant changes would occur in wholesaling, too.

CONCLUSIONS AND RECOMMENDATIONS

1. The floral wholesaling structure, firms, and practices found in southern California in 1956-57 have evolved to serve the needs primarily of retail florists. The traditional retail florists' trade consists largely of purchases for funerals, weddings, and ceremonial occasions. This means that the retail florists' total demand is only slightly responsive to price and income changes.

2. Consumer prices have remained high enough to keep many small marginal wholesalers in business and to allow costly and obsolete practices to continue. This situation appears more pronounced in floral wholesaling than in most other agricultural wholesaling trades. Floral wholesaling costs are not likely to be reduced without changes from present marketing methods, practices, and institutions.

3. Many growers, who desire to market an increasing volume of floral products, believe that existing wholesale and retail practices are not meeting their needs. Most retail florists are not particularly interested in changing their practices if the change would give less emphasis to the need for their services such as floral arrangements, corsages, and decorations for weddings. Wholesale florists find it difficult to become innovators by virtue of their role as middlemen between growers with excess supplies and retail florists with limited consumer demand. Therefore, any positive market development program is most likely to come from growers.

4. The development of expanded markets, as was found in the potted-foliage-plant segment of the industry, is dependent on: (a) Lower prices, arising chiefly from fewer and more efficient services; (b) longer lasting, uniform-quality products coming from improved production, handling, and packaging methods; (c) more acceptable units of sale to consumers with respect to size, composition, convenience, and price; and (d) changed consumer attitudes toward the use of floral commodities as part of everyday living in addition to their use for sentimental or obligatory reasons. More specific information is needed regarding each of these conditions to aid the industry in increasing the sale of floral products.

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